# 6. The fall of the Maxwell empire

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This case uses a number of independent reports on Robert Maxwell's business practices and the flotation of Mirror Group Newspapers (MGN), videos and other secondary material, to examine the rise and fall of the Maxwell empire. It can be used to teach how corporate governance in the UK has developed since 1990, the role of auditors and directors, the significance of pension funds in the capital markets, developments in pensions law, and the strengths and risks of a 'productive narcissist' CEO. 'The fall of the Maxwell empire' is a 'raw case' – an open-ended, multi-perspective study that can feature thousands of pages of relevant material that students must analyse, such as statutory documents, analyst reports, news articles, stock charts and interviews with key players. This format reflects the way managers must access and analyse information to make informed business decisions.

The Maxwell case can be used to teach students about corporate governance, focusing on why good corporate governance is necessary, how the UK corporate governance regime developed in response to the Maxwell debacle, the importance of pension funds, and the role and responsibilities of auditors. It also examines a particular type of business leader and how productive narcissism can become toxic.

Guidance on how to write a case analysis can be found in Chapter 1, 'Business cases: what are they, why do we use them and how should you go about doing a case analysis?'.

A teaching note for this case is available to bona fide educators. To request a copy please email a.a.pepper@lse.ac.uk

**How to cite this book chapter:**

Pepper, Alexander (2025) 'The fall of the Maxwell empire', in: Sallai, Dorottya and Pepper, Alexander (ed) *Navigating the 21st Century Business World: Case Studies in Management*, London: LSE Press, pp. 89–93. https://doi.org/10.31389/lsepress.nbw.f

## Introduction

On 5 November 1991, Robert Maxwell, a media mogul, was pronounced dead after his body was found floating in the Atlantic Ocean. He had last been seen alive on his yacht the *Lady Ghislaine*, and it was assumed that he had fallen overboard – the official ruling was of accidental death by drowning. After his death, Maxwell's publishing empire collapsed as banks called in their loans. At the same time a massive hole was discovered in the pension fund of the Mirror group, money having been diverted fraudulently by Maxwell in an attempt to shore up the finances of his business empire. The Maxwell companies filed for bankruptcy in 1992. Two of Robert Maxwell's children, Ian and Kevin, were subsequently prosecuted for fraud, though many years later both were eventually acquitted.

In 2001, following the conclusion of the legal cases against Ian and Kevin Maxwell, a report into the circumstances surrounding the flotation of the Mirror Group Newspapers was published by the Department of Trade and Industry (DTI). The DTI had commissioned the report in June 1992 and appointed a senior judge and leading accountant to carry out the investigation. The report, which runs to 372 pages and 20 appendices and is contained in two volumes, is very detailed and is the primary source of data for this case study.

## Robert Maxwell

Robert Maxwell (or 'RM' as he was widely known) was born in 1923 to Jewish parents in a town called Solotvino, which is now part of Ukraine. At the time of Maxwell's birth Solotvino was in what was then called Czechoslovakia, although the town was later reclaimed by Hungary in 1939. RM escaped to France before the start of the Second World War and subsequently moved to Britain. Most of his family was killed at Auschwitz.

RM became a successful businessman in his adopted homeland, building up an academic publishing group, Pergamon Press, based in Oxford. In 1970, RM lost control of Pergamon in circumstances which led to a DTI investigation. This concluded that Maxwell was 'not fit to run a public company'; nevertheless, he eventually regained control of Pergamon and, in 1981, acquired a majority stake in the British Printing Corporation, a listed company, subsequently renamed Maxwell Communications Corporation (MCC). In 1984, RM achieved a lifetime ambition to become the proprietor of a major British newspaper when Pergamon acquired the Daily Mirror from Reed International.

## Mirror Group Newspapers (MGN)

The *Daily Mirror* was launched in 1903 by Alfred Harmsworth, later Viscount Northcliffe, elder brother of Viscount Rothermere, both famous British newspaper proprietors. Shares in the *Daily Mirror* were listed on the London

Stock Exchange in 1953, but the company was subsequently acquired by International Publishing Corporation, which in turn was later acquired by Reed International. In 1984, Reed International, which was planning to dispose of the *Daily Mirror* by floating its shares separately on the London Stock Exchange, sold the newspaper instead to Pergamon. RM immediately installed new management under his direct control as executive chair. Having improved the state of the company's finances by making substantial cost savings, RM instigated an ambitious expansion programme, acquiring the book publishers Macmillan, Inc. in the US in 1988 for $2.6 billion and OAG Inc. for $750m, these acquisitions being funded by $3 billion of bank debt.

RM initially tried to float the Mirror group in the late 1980s to raise money to pay down some of his now substantial bank debt, but was unable to do so, in part because MCC owned the printing presses used to print the *Daily Mirror*. These were eventually transferred to MGN in 1989 at a price of around £300m, which was thought to be significantly in excess of fair value. MGN was subsequently floated on the London Stock Exchange in April 1991. Six months later RM was dead and his business empire was rapidly collapsing.

## Maxwell's business empire at the time of the MGN flotation

At the time of the flotation of MGN the Maxwell publishing empire comprised three distinct though interconnected parts: MGN; MCC; and Pergamon and other private companies owned by Maxwell (known as 'the private side'). Half the shares in MGN and MCC were listed separately on the London Stock Exchange. RM also controlled the assets of the Mirror Group Pension Scheme via Bishopsgate Investment Management Limited (BIM).

## Auditors

Both public and private companies in the Maxwell group were audited by Coopers & Lybrand Deloitte, now part of PwC.[1] Following the collapse of the Maxwell business empire, the firm was investigated by the accountancy profession's joint disciplinary tribunal.

## Further information

Further information about the Maxwell publishing empire and its demise can be obtained from various sources, in particular the following:

*The Robert Maxwell Documentaries.* 'Maxwell: the Downfall' DVD. This is a BBC *Inside Story* documentary produced by Tom Bower which can be found on YouTube.

A summary of the case which can be found in:

Wearing, R. (2005) *Cases in Corporate Governance.* London: Sage Publications. Chapter 4 'Maxwell'.

The DTI report on the flotation of MGN, which was published after the collapse of the Maxwell empire can be found at:

https://webarchive.nationalarchives.gov.uk/20060213225148/http://www.dti.gov.uk/cld/mirrorgroup/index.htm

Biographies of Robert Maxwell include:

Bower, T (2008) *Maxwell: The Final Verdict.* HarperCollins. An earlier book, Bower, T. (1992) *Maxwell – The Outsider.* Mandarin Publishers, is an earlier version of the same.

Greenslade, R. (1992) *Maxwell: The Rise and Fall of Robert Maxwell and his Empire*. London: Birch Lane Press.

Preston, J. (2021) *Fall: The Mystery of Robert Maxwell.* New York: Viking.

## Preparing the case

The Maxwell case raises many important questions about the personality and behaviours of successful businessmen, the role of auditors, the responsibilities of City of London institutions, family ownership of major stakes in listed companies, and corporate governance generally. You might like to think about the following questions in particular:

1. Identify from the case as many examples as you can of failures in corporate governance. To what extent did these failures contribute to the collapse of the Maxwell business empire? How could they have been avoided? What changes have subsequently been made to the UK Corporate Governance Code?
2. In what ways did corporate governance failures allow the misappropriation of pension fund assets to take place? How could they have been avoided? What changes have subsequently been made to the way that occupational pension schemes are regulated in the UK?
3. Consider the role and responsibilities of directors in public companies, drawing a distinction between executive and non-executive directors. What is meant by the term 'fiduciary duties'? Reflect on the part played by directors of the various companies in the Maxwell case – how well did they perform? What responsibility should directors other than Robert Maxwell and the Maxwell brothers bear for what happened?

4. Consider the role and responsibilities of auditors in public companies. Reflect on the role played by the auditors Coopers & Lybrand Deloitte (C&LD) in the Maxwell case, considering in particular: the purpose of an audit; C&LD's role in the flotation of MGM; C&LD's role as auditors of the Mirror Group Pension Scheme; how C&LD managed conflicts of interest and employed separation of responsibilities between different audit teams; who the auditors reported to at the companies they audited; and whether RM should have been accepted as a client by C&LD.

## Further reading

Ellison, R. (1993) 'Pensions law reform after Maxwell: The possible content of new pension regulations following the Maxwell case,' *Journal of Financial Regulation and Compliance*, vol. 1, no. 3, pp. 278–290. https://doi.org/10.1108/eb024776

Stiles, P. and Taylor, B. (1993) 'Maxwell – The failure of corporate governance,' *Corporate Governance*, vol. 1, no. 1, pp. 34–45. https://doi.org/10.1111/j.1467-8683.1993.tb00008.x

## References

[1] When the Deloitte Haskins and Sells global network merged with Touche Ross in 1989 to become Deloitte Touche Tohmatsu, the UK firm decide to merge with Coopers & Lybrand instead.