VeriSustain Article | VS-GOV03

Governance Failures Rarely Happen Overnight

The Early Warning Signs Boards Should Never Ignore

11 September 2026 | Theme 2: Governance & Board Leadership

Executive Summary

When a corporate governance failure becomes public, many stakeholders see only the final event. A corruption investigation, regulatory breach, whistleblowing scandal, workplace misconduct case, safety incident or sustainability controversy often appears sudden and unexpected.

In reality, governance failures rarely occur overnight.

Most develop gradually through small control weaknesses, poor decisions, ineffective oversight and cultural issues that remain unaddressed over time. By the time the problem becomes visible externally, the warning signs have often existed for months or even years.

For boards and senior leadership teams, the challenge is not simply responding to governance failures after they occur. The real challenge is identifying the warning signs early enough to intervene before significant damage occurs.

This article explores the common warning signs of governance failure, the critical role of organisational culture and why tone from the top remains one of the most important indicators of governance effectiveness.

Governance Failures Are Usually a Symptom, Not the Cause

When organisations face governance crises, there is often a tendency to focus on the immediate issue.

Examples include:

- Fraud investigations
- Corruption allegations
- Workplace misconduct
- Regulatory penalties
- Environmental incidents
- Financial reporting irregularities
- Supply chain controversies

However, these incidents are often symptoms rather than root causes.

The underlying causes frequently include:

- Poor board oversight
- Weak accountability
- Inadequate challenge from management
- Ineffective reporting mechanisms
- Cultural weaknesses
- Leadership behaviours that discourage transparency

Boards should therefore move beyond asking:

"What happened?"

and instead ask:

"Why were we unable to identify the issue earlier?"

The answer often reveals deeper governance challenges.

Fraud investigations, compliance breaches, corruption scandals and workplace misconduct are often symptoms of deeper governance weaknesses. Boards should examine whether warning signs were ignored and whether employees felt safe speaking up.

VeriSustain Insight

Major governance failures are seldom caused by a single bad decision. They are usually the result of multiple small failures occurring over time across leadership, culture, accountability and oversight.

Five Early Warning Signs of Governance Failure

1. Bad News Rarely Reaches the Board

One of the most dangerous governance indicators is a board that consistently receives only positive information.

Management reports may repeatedly show:

- Strong performance
- No significant incidents

- Full compliance
- Positive audit results
- Minimal stakeholder concerns

While strong performance is possible, boards should be cautious when reports appear overwhelmingly positive. Effective governance requires visibility of both successes and weaknesses.

Directors should periodically ask:

- What concerns are management worried about?
- Which risks are increasing?
- What incidents nearly occurred?
- What findings remain unresolved?

If difficult conversations are absent, governance blind spots may be developing.

---

2. Speak-Up Mechanisms Are Underutilised

Many organisations invest significant resources in:

- Whistleblowing programmes
- Ethics hotlines
- Grievance channels
- Employee feedback systems

However, low utilisation rates should not automatically be interpreted as a sign of success.

Employees may choose not to report concerns because they:

- Fear retaliation
- Lack confidence in the process
- Believe management will ignore concerns
- Feel reporting will damage career prospects

A healthy governance culture encourages constructive escalation.

The real question is not: "How many reports are we receiving?"

but rather: "Do employees trust the organisation enough to raise concerns?"

---

3. Compliance Is Viewed as Someone Else's Problem

Governance weakness often emerges when accountability becomes fragmented.

Examples include:

- Compliance teams working in isolation
- Risk ownership remaining unclear
- Operational leaders focusing only on business targets
- ESG responsibilities delegated without oversight

When governance responsibilities are viewed as the responsibility of a single department, risks can fall between organisational boundaries.

Strong organisations promote a culture where governance, compliance and ethical behaviour are shared responsibilities across all levels.

---

4. High Turnover in Critical Functions

Employee turnover can provide valuable governance insights.

Particular attention should be paid to turnover within:

- Internal Audit
- Risk Management
- Legal
- Compliance
- Finance
- Sustainability
- Human Resources

Repeated departures from these functions may indicate:

- Cultural challenges
- Leadership concerns
- Resource constraints
- Escalation frustrations
- Governance weaknesses

While turnover is not automatically a governance problem, patterns should be examined carefully.

---

5. Incentives Reward Results but Ignore Behaviour

Pressure to achieve business targets can unintentionally encourage poor behaviour.

Where organisations focus exclusively on:

- Revenue growth
- Profitability
- Market expansion
- Operational output

without considering ethical conduct, compliance and sustainability outcomes, governance risks may increase substantially. Effective governance requires balanced performance expectations.

Employees should understand that **how results are achieved is just as important as the results themselves.**

The Critical Role of Organisational Culture

Culture remains one of the most influential drivers of governance performance.

Policies, procedures and controls establish expectations, but culture determines how individuals behave when making real-world decisions.

A strong governance culture encourages:

- Transparency
- Accountability
- Ethical conduct

- Respectful challenge
- Continuous improvement

A weak culture often produces:

- Fear-based decision making
- Information concealment
- Blame shifting
- Excessive risk taking
- Resistance to escalation

Unfortunately, cultural weaknesses may remain hidden for extended periods before becoming visible through governance failures.

For this reason, boards should view culture as a strategic governance issue rather than a human resources issue alone.

VeriSustain Insight

Culture frequently acts as a leading indicator while governance failures serve as lagging indicators. By the time governance problems become visible externally, the cultural warning signs often appeared much earlier.

Tone from the Top Matters

Among all governance factors, tone from the top may be the most influential.

Employees pay close attention to leadership behaviour.

They observe:

- How leaders make decisions
- How leaders respond to concerns
- How misconduct is addressed
- How stakeholders are treated
- Whether values are consistently demonstrated

Employees are often more influenced by leadership behaviour than by formal policies.

When leaders consistently demonstrate integrity, transparency and accountability, those behaviours tend to cascade throughout the organisation.

Conversely, when leaders tolerate misconduct, dismiss concerns or prioritise short-term gains over ethical conduct, the message is equally powerful.

The organisation will eventually reflect the behaviours that leadership accepts.

Questions Boards Should Regularly Ask

Boards seeking stronger governance oversight should periodically consider the following questions:

Governance Oversight

1. What are our most significant governance risks?
2. What emerging governance concerns are receiving management attention?
3. Are unresolved issues increasing over time?
4. How effective are escalation mechanisms?

Culture

5. What does employee feedback reveal about organisational culture?
6. Do employees feel comfortable challenging management?
7. Are ethical concerns addressed consistently?
8. What cultural indicators are currently monitored?

Leadership

9. Does leadership behaviour align with organisational values?
10. Are incentives aligned with long-term value creation?
11. How are managers held accountable for cultural outcomes?

Future Readiness

12. Which governance risks may become material within the next three years?
13. Where do we currently lack visibility?
14. How are emerging ESG risks monitored?
15. How confident are we that bad news reaches the board quickly?

Malaysian Case Example

A Malaysian manufacturing organisation consistently reported strong operational performance and satisfactory compliance results.

However, internal audit reviews repeatedly highlighted unresolved control weaknesses across several facilities. At the same time, employee surveys showed declining confidence in reporting channels and concerns about management responsiveness.

Although no major incident had occurred, the board recognised these indicators as potential warning signs.

A governance review was commissioned focusing on:

- Escalation effectiveness
- Leadership accountability
- Organisational culture
- Internal control ownership
- Whistleblowing governance

The review resulted in stronger board oversight, improved escalation processes and greater leadership accountability. Most importantly, governance improvements were implemented before a major governance failure occurred.

Governance Failures and ESG Reporting

Strong sustainability reporting alone does not indicate strong governance.

Investors, regulators and stakeholders increasingly expect organisations to demonstrate:

- Effective governance structures
- Clear accountability
- Ethical leadership
- Risk management integration
- Transparent oversight processes

Without strong governance foundations, ESG disclosures may fail to reflect underlying organisational realities.

Good governance remains the foundation upon which credible sustainability reporting is built.

Bursa Malaysia Perspective

Bursa Malaysia's sustainability reporting expectations increasingly emphasise governance, leadership oversight and accountability.

Boards should actively consider:

- How culture influences ESG performance
- Whether governance risks are adequately monitored
- How leadership behaviours shape organisational conduct
- Whether material issues are escalated effectively
- How governance supports sustainability objectives

Governance remains a critical enabler of sustainable business performance and long-term value creation.

VeriSustain Insight

The strongest organisations are not those without problems.

They are organisations that detect problems early, encourage transparency and respond before small issues evolve into major crises.

Key Takeaways

- Governance failures rarely happen overnight.
- Early warning signs typically emerge long before major incidents occur.
- Organisational culture is a powerful governance indicator.
- Tone from the top influences behaviour throughout the organisation.
- Boards should monitor culture with the same discipline applied to financial performance.
- Strong governance supports sustainability, resilience and long-term enterprise value.

About VeriSustain

VeriSustain MyESG PLT supports organisations in ESG governance, sustainability reporting, enterprise risk management, anti-bribery management systems (ISO 37001), climate risk management, internal audit and assurance readiness programmes.

consultant@verisustain.my | +6013 699 6033 | www.verisustain.my