

Good Strategy, Poor Control: Internal Control Failures, Financial Reporting Breakdown, and Corporate Collapse in the United States

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Publication Date: 2026/04/25

Abstract: A sound business strategy can attract capital, inspire growth, and position organizations for market leadership. However, strategy alone does not guarantee sustainability. When internal controls are weak, financial reporting is unreliable, and audit functions are ineffective, even well-positioned enterprises can fail. This study examines patterns of corporate failure in the United States where strategic ambition outpaced control discipline. Using historical case analysis and U.S. bankruptcy data, the paper demonstrates that internal audit, financial risk management, and accounting systems are critical drivers of organizational resilience, investor confidence, and economic stability. The findings highlight the importance of integrating strategy with control capacity to prevent corporate collapse.

How to Cite: Bridget Elo Osigho (2026) Good Strategy, Poor Control: Internal Control Failures, Financial Reporting Breakdown, and Corporate Collapse in the United States. *International Journal of Innovative Science and Research Technology*, 11(4), 1880-1884. <https://doi.org/10.38124/ijisrt/26apr762>

I. INTRODUCTION

Businesses rarely collapse because strategy documents are badly written. More often, they fail because execution is not anchored in controls, credible reporting, and timely challenge. The lesson from major U.S. corporate breakdowns is clear: growth without discipline is fragile; innovation without accountability is expensive; and leadership without oversight can become a liability. Cases such as Enron, WorldCom, New Century, HealthSouth, and MF Global all illustrate, in different ways, how failures in books and records, internal control, governance, risk oversight, and financial reporting can destroy enterprise value. (*U.S. Securities and Exchange Commission [SEC], n.d.; SEC, 2003; SEC, 2012*)

This issue is not merely historical. U.S. Courts data show that business bankruptcy filings rose from 14,347 in the year ending December 31, 2021, to 24,737 in the year ending December 31, 2025 (*Administrative Office of the U.S. Courts, 2021; 2026*). That upward trend matters because it reflects a business environment in which resilience, liquidity management, governance, and financial visibility are increasingly decisive.

For that reason, internal audit, financial risk management, and accounting should be understood as strategic infrastructure. They are essential to preserving value, preventing mistakes, strengthening compliance, and supporting investor confidence. These are also areas of clear economic and regulatory significance to the United States.

II. SELECTED U.S. CORPORATE FAILURES LINKED TO POOR CONTROL, WEAK GOVERNANCE, OR FINANCIAL-REPORTING BREAKDOWN

These cases are not identical, but they reveal a consistent pattern: poor control environments, weak oversight, distorted reporting, and inadequate challenge functions can transform strategic pressure into institutional collapse (Breedon, 2003; SEC, n.d.).

In some cases, the trigger was fraud; in others, the failure was risk governance, reporting discipline, or control culture. The common thread is that strategy was not matched by accountability.

Again, because there is no official federal table that labels failures by “poor control” as a root cause, the table below

compiles representative U.S. cases from enforcement, monitor, testimony, and company filings.

Table 1. Selected U.S. Corporate Failures Associated with Internal Control, Governance, and Financial Reporting Breakdown

| Company | Failure / Bankruptcy Event | Control / Audit / Governance Breakdown | Evidence |
|-----------------------|--|---|--|
| Enron | Filed for bankruptcy on December 2, 2001 | SEC alleged failures to keep accurate books and records, failures to devise and maintain sufficient internal accounting controls, and failure to implement a system of internal financial controls. | SEC complaint and related filings. |
| WorldCom | Filed for Chapter 11 on July 21, 2002 | WorldCom’s court-appointed monitor reported that the board failed to understand risks or design adequate risk-control policies; the culture did not reward compliance, ethics, internal controls, or transparency. | SEC WorldCom litigation background and monitor report. |
| HealthSouth | Major accounting-fraud crisis in 2003 | SEC alleged violations of antifraud, reporting, books-and-records, and internal-controls provisions of federal securities laws. | SEC enforcement release. |
| New Century Financial | Filed for Chapter 11 on April 2, 2007 | SEC alleged that the company’s material non-compliance with financial-reporting requirements resulted from misconduct and that the company had to restate 2006 quarterly results. | SEC complaint and company 8-K/press materials. |
| MF Global | Bankruptcy / collapse in 2011 | SEC testimony described the events leading to the bankruptcy and highlighted implications for oversight, customer-asset protection, and market regulation. | SEC congressional testimony. |
| American Apparel | Chronic internal-control weaknesses disclosed before later Chapter 11 filing in 2016 | In its 2010 Form 10-K, the company disclosed material weaknesses in internal control over financial reporting and ineffective disclosure controls and procedures. Gildan later disclosed that American Apparel filed Chapter 11 on November 14, 2016. | Company SEC filing and later acquisition disclosure. |

➤ *Interpretation:*

Table 1 demonstrates that corporate failure is frequently linked to deficiencies in internal controls, governance, and financial reporting. While the triggering events vary, the underlying issue remains consistent: strategic decisions were not supported by adequate control systems.

III. U.S. BUSINESS BANKRUPTCY STATISTICS

The table below uses figures published by the Administrative Office of the U.S. Courts for the 12-month periods ending December 31 of each year (*Administrative Office of the U.S. Courts, 2021–2026*).

Table 2. U.S. Bankruptcy Filings by Category (2020–2025)

| YE Dec. 31 | Business Filings | Non-Business Filings | Total Filings |
|------------|------------------|----------------------|---------------|
| 2020 | 21,655 | 522,808 | 544,463 |
| 2021 | 14,347 | 399,269 | 413,616 |
| 2022 | 13,481 | 374,240 | 387,721 |
| 2023 | 18,926 | 434,064 | 452,990 |
| 2024 | 23,107 | 494,201 | 517,308 |
| 2025 | 24,737 | 549,577 | 574,314 |

Sources: U.S. Courts annual bankruptcy releases for 2020–2025.

The data show a drop in filings during the pandemic period and a marked rebound afterward. Business filings fell from 21,655 in 2020 to 13,481 in 2022, then rose to 24,737 in 2025. That is an increase of about 83.5% from 2022 to 2025, and about 72.4% from 2021 to 2025.

This does not prove that weak controls caused those filings, but it does show why stronger risk management, better reporting visibility, and earlier internal-audit intervention matter more in volatile periods.

IV. WHY GREAT BUSINESSES FAIL EVEN WHEN STRATEGY LOOKS GOOD

A business can have market demand, strong branding, and an ambitious strategic plan and still fail for reasons that are much less glamorous: unreliable numbers, weak reconciliations, inadequate segregation of duties, tone-at-the-top failures, poor liquidity monitoring, unmanaged exposures, and the absence of meaningful challenge from audit or finance.

The Enron and WorldCom records remain especially instructive because they show how culture and control failure can neutralize formal governance structures (SEC, n.d.; Breeden, 2003).

This is why “good strategy, poor control” is such a dangerous combination. Strategy expands activity. Poor control magnifies hidden risk. When the information reaching leadership is incomplete, manipulated, delayed, or misunderstood, even intelligent decisions can rest on unstable foundation.

V. THE USEFULNESS OF INTERNAL AUDIT

Internal audit is valuable precisely because it is designed to ask the questions that growth-focused teams may avoid. A strong internal-audit function helps organizations identify control gaps before they become losses, detect governance drift before it becomes scandal, and test whether reported performance is supported by underlying processes and evidence (Diligent Corporation, 2025).

The major U.S. control-failure cases above also show the cost of weak or ineffective challenge functions.

Internal audit provides:

- Assurance over control effectiveness
- Early risk visibility
- Governance reinforcement
- Fraud detection and deterrence
- Organizational resilience

Research shows that strong internal controls function as a first line of defense against operational, financial, and regulatory risks (Diligent Corporation, 2025).

➤ *The Usefulness of Internal Audit can be Grouped into Five Areas:*

- First, assurance. Internal audit validates whether controls are designed and operating effectively. That includes financial close controls, journal-entry oversight, reconciliations, access management, and disclosure controls. Where these break down, misstated accounts and delayed reporting often follow.
- Second, risk visibility. Internal audit helps leadership see emerging threats earlier, including concentration risk, process override, compliance exposure, and liquidity pressure. WorldCom’s example shows what happens when risk understanding at the board level is weak.
- Third, governance discipline. Internal audit reinforces accountability by testing whether management actions align with policy, control expectations, and reporting obligations. Enron and HealthSouth illustrate the consequences when governance and internal-control discipline break down.
- Fourth, fraud, deterrence and detection. Internal audit cannot eliminate fraud risk, but it can materially reduce the opportunity for manipulation through monitoring, testing, root-cause analysis, and escalation.
- Fifth, resilience. In periods of economic stress, strong internal audits help companies move from reactive cleanup to proactive control stewardship. That becomes especially important as business bankruptcy filings rise.

VI. FINANCIAL RISK AND THE ROLE OF ACCOUNTING

Accounting is often described as the language of business, but in practice it is more than language; it is infrastructure. Reliable accounting determines whether an organization understands its liquidity, obligations, profitability, and exposure. When accounting processes are weak, risk measurement becomes unreliable. When risk measurement is unreliable, strategy becomes guesswork in formal clothes.

The New Century case is particularly relevant here because the SEC alleged material non-compliance with financial-reporting requirements and noted the need for accounting restatements before the company’s bankruptcy (SEC, 2009). Similarly, American Apparel disclosed material weaknesses in internal control over financial reporting and ineffective disclosure controls (American Apparel, Inc., 2010).

These are not technical side notes. They are warning signs that the information environment needed for sound decision-making has weakened.

Strong accounting contributes to business stability by improving:

- the quality and timeliness of financial reporting,
- the reliability of management decisions,
- lender and investor confidence,
- compliance with reporting obligations, and

- early detection of adverse trends.

In other words, accounting is not merely recordkeeping. It is one of the first lines of defense against strategic failure.

VII. THE REAL LESSON: STRATEGY MUST BE MATCHED BY CONTROL CAPACITY

The recurring U.S. pattern is not that businesses lack ambition. It is that many organizations expand faster than their control architecture matures. They add products, markets, financing arrangements, and reporting complexity without a proportional investment in internal audit, financial control, governance, and risk analytics. When this happens, the business may look strong until a restatement, liquidity event, investigation, or bankruptcy exposes the weakness.

Therefore, the practical question for leadership is not simply, “Do we have a growth strategy?” It is, “Do we have the control capacity to survive our own strategy?”

Accordingly, leadership focus must extend beyond strategic formulation to include control capacity. The critical question is not merely whether an organization possesses a viable growth strategy, but whether it has the internal control infrastructure required to sustain that strategy.

Empirical and professional studies demonstrate that weak control environments—particularly during periods of rapid growth—lead to reporting inaccuracies, compliance deficiencies, and operational inefficiencies (NOW CFO, 2026).

At the same time, robust internal controls function as a primary defense against financial and regulatory risks (Diligent Corporation, 2025), while stronger audit oversight has been shown to reduce financial misstatements and improve reporting quality (Elsevier, 2025).

VIII. GLOBAL AND NATIONAL IMPORTANCE

The strengthening of financial reporting systems, accounting processes, internal controls, and audit functions is of critical importance not only at the organizational level, but also at national and global scales. Economies depend on transparent, reliable, and timely financial information to support investment decisions, regulatory oversight, and sustainable growth.

In the United States, there is a strong public and institutional interest in ensuring financial transparency, robust governance, fraud prevention, and the resilience of both private and public sector institutions. Recent data indicating rising business bankruptcy filings underscores the increasing need for stronger financial discipline, effective risk management, and proactive oversight.

Recent data indicating rising business bankruptcy filings underscores the increasing need for stronger financial discipline, effective risk management, and proactive oversight (Administrative Office of the U.S. Courts, 2026).

Historical corporate failures further demonstrate the far-reaching economic consequences of weak internal controls and distorted financial reporting (SEC, n.d.; SEC, 2003).

Globally, financial systems are interconnected, and failures in governance or reporting in one jurisdiction can have ripple effects across markets. As such, strengthening financial accountability contributes to global financial stability, enhances investor confidence, and supports cross-border economic cooperation. These priorities align with international frameworks such as those promoted by the United Nations and standard-setting bodies including the International Accounting Standards Board.

A professional focus on:

- improving financial reporting quality,
- strengthening accounting processes,
- enhancing internal-control design,
- advancing internal-audit effectiveness,
- improving financial-risk analytics, and
- supporting fraud prevention and compliance

has clear national and global relevance. These functions are fundamental to investor protection, business continuity, regulatory confidence, and the integrity of financial information that underpins modern economies.

Ultimately, strong financial governance is not merely an organizational priority—it is a cornerstone of economic stability, public trust, and sustainable development worldwide.

The findings indicate that organizational failure is rarely due to poor strategy alone. Instead, breakdowns in internal control systems, weak governance structures, and ineffective financial reporting processes are critical contributors.

The increasing trend in U.S. business bankruptcy filings further underscores the need for proactive risk management and stronger internal audit functions.

Organizations that integrate strategy with control capacity are more likely to achieve sustainable growth and resilience.

IX. CONCLUSION

Corporate failure is rarely due to poor strategy alone. Instead, it results from the breakdown of internal controls, governance systems, and financial reporting processes.

where internal controls are weak, governance is passive, and accounting discipline erodes, the distance between success and collapse becomes dangerously short (SEC, n.d.; Breeden, 2003). Enron, WorldCom, New Century, HealthSouth, MF Global, and similar cases show that poor control is not a technical defect; it is a strategic threat.

The U.S. experience demonstrates that:

- Weak controls increase vulnerability to failure
- Strong governance enhances resilience
- Reliable accounting supports sound decision-making

Internal audit, financial risk management, and accounting are not support functions—they are essential components of sustainable business success.

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