BOOK REVIEW

THE SEVEN SIGNS OF ETHICAL COLLAPSE.

By MARIANNE M. JENNINGS
New York: St. Martins Press (2006)
Paperback, 212 pages
Reviewed by Juan Prestol

The Seven Signs of Ethical Collapse, by Marianne Jennings, is a fitting postmortem of the failings of American companies whose self-inflicted demise was a startling warning message to those that continue operating. The stunning downfall of Enron, WorldCom, Tyco, Arthur Andersen, Health South, and other companies raises the question of whether there are signs of ethical decline that could alert stakeholders that something is going sour. Jennings sets out to do just that. She identifies seven observable indicators for board members, managers, investors, and stakeholders to confront runaway ethical issues:

1. Pressure to maintain the numbers
2. Fear of silence
3. Young ‘uns and a bigger-than-life Chief Executive Officer (CEO)
4. Weak board
5. Conflicts
6. Innovation like no other
7. Goodness in some areas atoning for evil in others

At Enron, the pressure to maintain the numbers meant pushing accounting rules to the edge with “creative interpretations” in order to achieve desired results, even if the rules were being used in a manner for which they were never intended. Those who raised issues encountered a culture of fear and silence and were pushed aside. Brent Scowcroft, a former presidential adviser and member of one of Enron’s boards, confronted Enron CEO Ken Lay about the auditor’s concerns.

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His concerns were dismissed out of hand, and Scowcroft was brought back into the line of silence that consumed the culture, even extending to outsiders.

A particularly dangerous combination involves an iconic leader who does not allow or listen to dissent, often leading to compliant behavior of a controlled officer team. When such a situation is aggravated by conflicts of interest and board members having compromising ties to the key company officials, approving loans for executives, receiving high amounts of compensation either in cash or in shares of common stock, having no financial and accounting expertise, and other factors, the deteriorating health of the company often was virtually undetectable by those who should have known. Arthur Andersen served as both auditor and consultant to Enron. Enron even hired the son of the CEO as a consultant, and booked more than $10 million in travel from a travel agency co-owned by the sister of Enron's CEO (pp. 178-194). In this web of conflicting interests integrity is an easy victim.

The CEOs of collapsed companies often faced challenges to their visionary ideas. While they may not have started out with the intent to deceive, they gradually "slid there as hubris consumed them, and they did whatever it took to maintain their unique and revered status in the marketplace" (p. 205). Unfortunately, the development of corporate leaders by universities and colleges and their emphasis on skills is not helpful here either. When there are no moral absolutes, even well-honed skills are of little help in matters that require ethical judgment (p. 218).

A strength of the book is that it offers practical antidotes to each of the signs of ethical collapse. For instance, Jennings recommends dealing with the temptations of deceptive innovation and growth impressions (Sign #6) by recognizing limits and economic cycles, using honesty and candor at all times, and developing a resilience to pressure (p. 236).

One of the most troubling signs of ethical collapse is probably Sign #7, when philanthropy and social responsibility are used as a cover for a troubled soul and even more troubled books. Many of the collapsed companies' CEOs were very generous to the communities surrounding their base of operations. Over his 10-year tenure at Tyco, CEO Kozlowski gave $35 million to charities (p. 242). When their empire collapsed, their beneficiaries also suffered.

In the final chapter Jennings offers a parting warning: Catch the first mistake. This is very critical, as "it's not the first mistake that'll kill you. It's the second, the third and the cover-up of all three" (p. 270). She also counsels to go beyond minimum standards. Although the law is the minimum standard of behavior, ethics demand more if trust in business and investor commitments are to be restored (p. 275). Instead, she calls for the practice of virtue ethics, reflected in the model below:

Absolute Values ➤ anchor your ➤ Virtue Standards ➤ lead to the practice of ➤ Virtue Ethics

Virtue ethics derive from moral absolute values. Virtue standards require that the resolution of a dilemma be found in accordance to a predetermined set of absolute values. Absolute values anchor virtue standards. The application of these standards to real life situations is the practice of virtue ethics (p. 282).

It is difficult to imagine a more thorough and vivid qualitative description of ethical issues and their moral consequences than Jennings' *Seven Signs of Ethical Collapse*. There is a consistent ring to her message: corporate America has failed the test. Its leaders are self-serving and their actions show that their values are divorced from morality, decency, honesty, and good and simple business sense.

This same sentiment was echoed in President Obama's press conference held at the conclusion of his first 100 days in office:

> But even as we clear away the wreckage of this recession, I've also said that we can't go back to an economy that's built on a pile of sand, on inflated home prices and maxed-out credit cards, on overleveraged banks and outdated regulations that allow the recklessness of a few to threaten the prosperity of all. We have to lay a new foundation for growth, a foundation that will strengthen our economy and help us compete in the 21st century. (Obama, 2009)

The "pile of sand" is greed, dishonesty, mismanagement, and lack of corporate responsibility, which Jennings describes vividly and accurately.

The law will never go as far as ethics will go. Ethics is built on character, and "character is who you are at the core of your being, the complex of attributes that make you moral, righteous, dependable, and decent" (Turknett & Turknett, 2005, p. 196). Thus it should not come as a surprise to students of leadership that "in view of the ethical corporate meltdowns of recent years, the spotlight has shifted to leader authenticity, ethicality, morality, and integrity" (Gardner, Avolio, & Walumbwa, 2005, p. 282).

In conclusion, *The Seven Signs of Ethical Collapse* is informative and thought provoking. It is recommended to all leaders wondering about how to strengthen the ethical fiber of their organizations.

References

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