The Seven Signs of Ethical Collapse
by Marianne M. Jennings
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Marianne Jennings, educated as an attorney, is professor at Arizona State University. *The Seven Signs of Ethical Collapse: How to Spot Moral Meltdowns in Companies Before It's Too Late* is her tenth book. She writes and speaks widely on business ethics and has lots of experience consulting with companies great and small. She is a wonderful writer and a feisty, unintimidated observer and analyst of the business world and its ups and downs. Few books provide as much new and helpful information per page as this volume.

Out of her consulting and study, Jennings is confident that all ethical breakdowns in companies have common characteristics even if in detail they may seem distinctive. In fact there are seven signs to watch for. Each sign gets a chapter in her book, with abundant illustrations from Enron, HealthSouth, WorldCom, Tyco, United Way, Martha Stewart, and on and on. Each diagnosis is followed by a clear description of the antidotes to the particular problem.

The first sign of ethical collapse is "Pressure to maintain the numbers." Multiple detailed stories and examples from Enron, Health Couth, AIG and other companies are provided. Numbers matter but they must be surrounded by "a square box of values" and anyone who crosses the line must be fired, no matter how much revenue they seem to generate. The second sign is "fear and silence" in the culture. The antidotes are to build a culture of openness and dissent, and to reward those who speak up. The third sign is having a "star CEO surrounded by young sycophants" incapable of dissent. The stories of Bernie Ebbers, John Rigas, Hank Greenburg, Richard Scrushy, William Aramony, and others range from hilarious to pathetic and disgusting. Antidote: get rid of (or at least curb) iconic CEOs. One of Jennings most interesting sections here discusses how so often personal indiscretions are a tip off to deeper ethical problems that will emerge in due time. Chumps like Scrushy, Ebbers, Kozlowski, Jack Welch, Phil Condit, Jeff Skilling and others who dump their wives and trash their families hide behind the "it's only my personal life so butt out" smoke screen. But they are really sending out signals that even those closest and most dependent on them don't mean a damn thing to them. Look out!

The fourth sign is a "weak board." The composition of the board is often CEO cronies with conflicts of interest, too much deference to the CEO (often also their Chair), the absence of genuine discussion, review, and conflict, the presence of lax processes. Pay attention to perks! The fifth sign is the failure to recognize and root out conflicts of interest (family, financial, etc.). Jennings provides many examples of fallen companies which tolerated those conflicts and didn't pay attention (hello weak boards again!). The sixth sign is "innovation like no other." In other words, these ethically-imperiled companies think they are above and beyond the normal ways of doing business (including accounting). They think they are creatively inventing the future. Red flag!! One amazing thing is how the major business press lauded and praised these houses of cards until they were falling down in front of them. They almost all fell for the truckloads of bs generated by Ken Lay (CEO of the Year, etc.) and his kind. (Even this past month or so, Charlie Rose, a terrific journalist most of the time, invited old Hank Greenburg on his show to snow Charlie and the viewers one more time. If there was any justice Charlie would have been conducting the Greenburg interview in a cell at Riker's Island).

The final, seventh sign is "goodness in one area atones for evil in another." So often the crooks are leading philanthropists in their communities. One of Jennings's targets is (rightfully I believe) the type of ethics training given in most business schools, MBA level included. Lots on social responsibility and giving back to the community, little on honesty in accounting. In complete agreement with her on this point, in my courses I always follow the classical approach that sees ethics as the big umbrella concept that covers everywhere that right and wrong arise--- and social responsibility, environmental sustainability, corporate governance, compliance, and other hot topics are each a <u>subset</u> of the ethics territory.

Jennings is very confident that these are THE seven signs of ethical collapse in companies. This is certainly a great list (and book) for a board, executive, or management retreat to consider. Jennings has the kind of clear headed and ruthlessly honest critique that we need. It is just amazing how so many of the same culprits in the Enron, Worldcom, and other scandals are now the culprits in the Wall Street meltdown. And who pays for their damage? The people pay. But in the end, Jennings calls not just for negative critiques but for a positive rediscovery of values-based decision-making and the sort of virtue ethics that builds healthy corporate cultures. In the end it is better to study Southwest Airlines, Toyota, and Costco – than to get sidetracked cursing United, GM, WalMart and their kind.