

**Jennings, Marianne M. – The Seven Signs of Ethical Collapse**

*St. Martin's Press, 2006, [Business] Grade* ★★ ★

Successful investing in stocks is just as much about dodging the loser stocks as it is discovering and keeping the winning ones. The process of knowing what to avoid could focus on qualitative factors such as companies with high leverage, poor return on capital, weakening profit momentum, high valuation multiples or accounting ratios that indicate dodgy accounting. It could also focus on qualitative signs regarding the corporate culture. Marianne Jennings, at the time professor of business ethics at Arizona State University, has with the experience of corporate collapses during three stock market cycles written the latter type of manual. It's not just a handbook in detecting companies approaching the abyss but the author also gives a number of suggestions for improving the culture, to be used by companies.

The structure of the book is simple. There is an introductory chapter and preface, there are two concluding chapters and in-between there is one chapter for each of the 7 signs that in the author's view point to the risk of an ethical collapse in the company. Each of the 7 chapters starts with a discussion of the issue, a number of examples mostly centered on the corporate scandals of Enron, WorldCom etc. in the early 2000's and then a comes number of suggested antidotes that are summed up in a list at the very end. Mild forms of one or two of these signs might not indicate an imminent disaster but extreme cultures and multiple warning signs should be taken notice of.

Which warning signs should we as investors or corporate executives be on the lookout for in Jenning's opinion? The signs are: 1) "Pressure to Maintain Those Numbers" – an unhealthy and unreasonable obsession in meeting earnings numbers that in the end makes the temptation to make the numbers up too great, 2) "Fear and Silence" – a culture that offers no venues to air concerns or punishes those employees who try, 3) "Young 'Uns and a Bigger-than-Life CEO" – iconic, idolized and charismatic CEOs surrounded by young and sycophantic executive managers, 4)

"Weak Board" – a board comprising of inexperienced, incompetent or too-busy directors or directors with too many business or friendship ties with the management, 5) "Conflicts" – companies full of nepotism, mutual back-scratching and the extraction of benefits on the expense of shareholders, 6) "Innovation Like No Other" – differentiated, innovative and successful companies that over time come to embrace a view that they in their uniqueness stand above petty wordly obstacles like rules and 7) "Goodness in Some Areas Atones for Evil in Others" – CEOs that use shareholder's money for public and self-glorifying philanthropy or engage in what's called corporate social responsibility and by these good deeds permit themselves to lie and cheat in others.

Unfortunately, the structuring of the chapters could have been more stringent. Often the texts on suggested antidotes too much continue to describe and exemplify the proposed problem. The author's writing is somewhat stilted and declamatory at the same time as the opinions and antidotes are in my view sound and fair. I also quite like that she spares no punches – for example, with regards to Jack Welch, the former CEO of GM: "*Mr. Welch was often touted as the greatest manager of all times. Mr. Welch would perhaps be more accurately described as the greatest earnings manager of all time*".

I would further love to see the propagation of the virtues discussed by Jennings in business life – and even more pressing in the political life. The question is how to go from wishing to execution of that hope – the author gives no real hints. As a side note, the book is published 2006, today a decade later when corporate social responsibility has developed into an all-embracing religion, the author's text regarding the seventh sign would be almost impossible for an academic to write.

Often it is reading the subjective, quantitative signs that separates the great investor from the ordinary one. Jennings offers one potential framework to interpret the signals of an approaching fall.

Mats Larsson, August 22, 2017