



Journey of a Corporate Whistleblower

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BOOKS REVIEWED:

Cooper, Cynthia, 2008, *Extraordinary Circumstances: The Journey of a Corporate Whistleblower* (Hoboken, NJ: Wiley).

Baker, Ronald J., 2008, *Mind Over Matter: Why Intellectual Capital Is the Chief Source of Wealth* (Hoboken, NJ: Wiley).

The first book reviewed provides insight into an incredible corporate saga contrasting the influence of greed and moral weakness with principled behavior. Cynthia Cooper provides an insider's view of the rise and fall of WorldCom and the largest fraud in corporate history. In the second book, Ronald Baker discusses intellectual capital as a primary driver of economic growth. He argues that intellectual capital is the chief source of wealth.

EXTRAORDINARY CIRCUMSTANCES: THE JOURNEY OF A CORPORATE WHISTLEBLOWER

The author, Cynthia Cooper, was Chief Audit Executive at

WorldCom. She and her staff identified the largest fraud in corporate history. The book reads like a novel in addition to being informative. As the author indicates, it is a "story about human nature, about people and choices." Cooper conveys her personal journey and challenges along the way. It is an inspirational story of courage and character under immense pressure. We learn the facts as well as the author's informed and inside impressions of the incredible WorldCom story. We learn about the roles of Bernie Ebbers (WorldCom CEO), Scott Sullivan (CFO), and many others who either participated in or were otherwise affected by the rise and downfall of WorldCom.

The book consists of 367 pages plus notes and index. It is a page turner. We learn the history of the key players from long before the existence of WorldCom through its rise and fall, ending with the sentencing of the parties found guilty. Insights that readers are provided include the rise and fall of the telecom industry, the role and importance of the internal audit function, ethical pressures that professionals should be prepared to

encounter, alternative responses of average people to these ethical pressures, the history of a successful and talented entrepreneur (Bernie Ebbers) outgrowing his competencies, and corporate governance and regulatory deficiencies, creating the need for the Sarbanes-Oxley Act of 2002 and other regulatory changes.

WorldCom's auditor, Arthur Andersen & Co., relied heavily on internal controls over the reporting process, which were overridden by top executives. The auditors may have been motivated to reduce audit procedures over financial reporting to obtain consulting fees that exceeded audit fees. The board of directors was heavily influenced by CEO Bernie Ebbers, which may have encouraged them to go along with arrangements against their better judgment. Financial analysts working for financial institutions that were also interested in receiving WorldCom's investment banking revenues may have been influenced to give more favorable ratings on WorldCom (and other companies) than they otherwise would have given. Internal audit reported too low in the organization, lessening its effectiveness.

Top management had too little appreciation for the importance of an ethical and effective control environment.

From a human nature point of view, we see the personal pressures on and motivations of the author and others involved in the saga and how they responded to these pressures. We get an inside view of the influence of greed and power. The author points out that we all face ethical dilemmas to a greater or lesser extent. Cooper summarizes ethical lessons of her experiences in the WorldCom history in an epilogue. We are provided insights into the life of a whistleblower, the ethical dilemmas faced by top and mid-level executives, and how they responded to the challenges they encountered.

In addition to being enjoyable reading, there are many lessons to be learned from this telling of the WorldCom tale. We highly recommend *Extraordinary Circumstances* to anyone interested in governance and ethical challenges of the business world, including good and bad examples of integrity and character. Business professionals and students who are leaders or aspire to leadership would find *Extraordinary Circumstances* a worthwhile read.

MIND OVER MATTER: WHY INTELLECTUAL CAPITAL IS THE CHIEF SOURCE OF WEALTH

In his latest book, *Mind Over Matter*, author Ronald J. Baker argues that intellectual capital has been and is the chief source of wealth. Using numerous examples, he argues that intellectual capital is the greatest driver of economic growth and that organizations that focus on managing physical assets and task-driven work will fail to

recognize and unlock the significant value of intellectual capital hidden in their firms.

The author relies on a definition of *intellectual capital* from a 1995 conference on the subject: “intellectual capital . . . [is] knowledge that can be converted into profits.” According to the author, this knowledge can exist as *human capital* (the aggregate knowledge of employees), as *structural capital*, which includes “databases, customer lists, systems, procedures, intranets, manuals, files, technology, and all of the explicit knowledge tools . . . [utilized] to produce results for your customers,” and *social capital*, which “includes customers, suppliers, vendors, networks . . . and so on.” One of Baker’s major insights is the concept of *negative intellectual capital*. Put simply, an organization’s human, structural, and social capital can in part be adverse to achieving the organization’s objectives. For example, think of an employee’s limited knowledge of a task that leads him to perform some task inefficiently or ineffectively, or a process or database that may hinder instead of further the pursuit of organizational objectives.

Baker attempts to make the case that many popular management practices are antithetical to operating in a knowledge economy. He argues that annual performance appraisals do not measure the value of intellectual capital their employees bring to their firms. According to Baker, the use of timesheets is more suitable for manual workers than knowledge workers. Citing one of his colleagues, he notes that “knowledge workers are paid for ideas, not hours” and that the use of timesheets for knowledge workers is micromanagement that only provides an “illusion of control.”

In a later chapter in the book, Baker castigates the current financial reporting model for its failure to adequately account for intellectual capital. In fact, he alludes to the possibility of “accountants go[ing] the way of the scribes.” His primary criticism is that current financial reporting practices are lagging as opposed to leading indicators of performance and of limited use in predicting the future value of the firm. Further, he notes that accounting is necessarily internally, rather than externally, focused, and criticizes accounting for its lack of a theoretical basis. Surprisingly, the author doesn’t see the addition of intellectual capital to the current financial reporting model as solving the problem, as he seems to view the current accounting paradigm as fatally flawed.

Mind Over Matter is a difficult book to categorize. The first three chapters read like an economics book with the invocation and liberal quoting of leading historical figures in economics such as Adam Smith, David Ricardo, John Maynard Keynes, Milton Friedman, and an extensive discussion of the theories of Karl Marx. Current economists Thomas Sowell and Friedrich Hayek are quoted at length in subsequent chapters. In later chapters, it reads like a management trade book. The writings of guru Peter Drucker are heavily cited, and several references may be found to the works of Clayton Christensen, Stephen Covey, and Henry Mintzberg. The Scientific Method of Frederick Taylor and Henry Ford’s assembly line are also discussed at length, as part of a tracing of the evolution of certain management concepts and practices from the nineteenth and early twentieth centuries to the present. This treatment of the

historical progression of management practices helps to provide an understanding of the differences between the environment in which they were created and today's knowledge environment, illustrating the shortcomings of such practices in a knowledge-driven firm.

Baker's *Mind Over Matter's* 15 chapters and 340 pages is a broad and fairly comprehensive multidisciplinary treatment of intellectual capital and the impli-

cations of the new knowledge economy. However, this book could have benefited from more extensive editing. The term *intellectual capital*—the topic of the book—is not defined until page 104. There is a sense of excessive reliance on the statements of others to support the author's arguments. Distracting, lengthy, multipage quotations abound throughout the text. For example, the author inserts a complete, ten-page Ronald Reagan

speech within the text of a chapter.

While many readers might disagree in part with Baker on his views about current accounting practices, his treatment of intellectual capital and the knowledge economy is indisputably well researched and thought-provoking. Concurring with the liner notes, we recommended this book for "anyone concerned with getting and keeping a job in the twenty-first century."

David M. Cannon, PhD, CPA, CISA, is an assistant professor at Grand Valley State University. Dr. Cannon's teaching interests are in accounting information systems, management information systems, and managerial accounting. His research areas include accounting information systems and methodological issues in accounting research. **Joseph H. Godwin**, PhD, CPA, and **Stephen R. Goldberg**, PhD, CPA, are professors of accounting at Grand Valley State University. Their teaching and research interests focus on financial accounting, international accounting, financial derivatives, and economic value added. They have published articles in a number of academic and practitioner-oriented journals.