

Retraction Notice

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History

Expression of Concern:

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no

Comment:

This article has been retracted to straighten the academic record. In making this decision the Editorial Board follows [COPE's Retraction Guidelines](#). Aim is to promote the circulation of scientific research by offering an ideal research publication platform with due consideration of internationally accepted standards on publication ethics. The Editorial Board would like to extend its sincere apologies for any inconvenience this retraction may have caused.

Analyzing Toxic Leadership and Poor Management in Modern Businesses

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Abstract

This manuscript introduces a new leadership model for professors that teach Business Leadership and Management in a college business curriculum, both undergraduate and graduate. It focuses on the key role that poor leadership and ethics have played in the failures of a variety of modern major business enterprises. The emphasis is on toxic leadership which can be seen in the catastrophic failures of several major firms over the past quarter century. It uses a book by Stephen Arbogast entitled “Resisting Corporate Corruption (RCC): Practical Cases in Business Ethics from Enron through SPACs, IV Edition”. The manuscript complements this book with a New Leadership Model that enhances the analysis of a variety of toxic leadership case studies over the past several years. The model is illustrated in such firm failures as the Madoff Ponzi Scheme and in major firms such as Theranos, Nikola, We Work and Volkswagen. Documented results from students have provided evidence that the dark side of leadership can be examined using such actual real-world cases. This leadership model is also recommended to firms for use in risk management when firms are considering the potential hazards of risky decision-making.

Keywords

Mismanagement, Ponzi Scheme, Digital Revolution, Corruption, Toxic Leadership

1. Introduction and Background

This manuscript introduces an innovative approach for professors that teach Business Leadership and Management in a college business curriculum, both undergraduate and graduate. It focuses on the key role that poor leadership and ethics have played in the failures of a variety of modern businesses. It emphasizes

es that toxic leadership and poor management may have played a key role in the failures of these firms. A variety of companies that failed due to their poor leadership and management cover a wide spectrum. Several will be discussed in some detail in this study.

The Literature Review primarily covers major firms that failed in the latter part of the 20th century. Then moving into the early part of the 20th Century, there are several major firms that will be discussed that appear to have failed partly due to the mismanagement and toxic leadership. The main portion of the paper will cover a “New Leadership Model” that greatly enhances the analysis of a variety of toxic leadership and poor management case studies over the past several years. This research structure is covered in the major section of the paper entitled “The New Leadership Model in Course Design”. This model in the paper is the main contribution to research. This leadership model is also available for use in risk management techniques that can be used when firms are considering the potential hazards of risky decision-making.

Stephen Arbogast’s book “Resisting Corporate Corruption (RCC): Practical Cases in Business Ethics from Enron through SPACs, IV edition” provides a plethora of cases that can be analyzed using the leadership model e.g., Goldman Sachs, AIG, Fannie Mae, Bear Stearns, Lehman Brothers, WeWork, Nikola, Volkswagen and Theranos (**Appendix A**). The latter two are discussed in some detail in this paper. One individual that is singled out for his toxic leadership is Bernie Madoff. His \$20 Billion Ponzi scheme was a particularly egregious example of how one individual defrauded thousands of investors of their hard-earned money fueled by his manipulation of technology.

2. Literature Review

In the years leading up to 2000, there were several company failures due to poor management. Several of the most significant were Lincoln Savings and Loan in 1989 (Binstein & Bowden, 1993), Pan-Am’s failure in 1991 (Conrad III, 2000), and Long-Term Capital Management in 1998 (Lowenstein, 2000). The references specifically mention major management failures that led directly to the collapse of these firms. Some of the specific reasons cited were management’s inability: 1) to recognize poorly designed products; 2) to determine that the technology being used was not mature enough “for prime time”; 3) to properly estimate the large costs that would be involved in the development, production and operations of new products; and lastly 4) to recognize that in their industry that there was a paradigm shift often where new technology was replacing their firm’s older, established technology.

First there was the management’s inability to recognize poorly designed products. Personal computers (PCs) and cell phones first began to appear on the market in the early 1980s. Focusing on PCs, this field immediately experienced a good deal of competition, as firms were anxious to take the lead in this new market. The market quickly became flooded with devices such as the Altair,

Commodore 64, Kaypro II, the Apple II, the Tandy TRS-80, the Texas Instrument TI 99/4, the Atari 400, and the IBM PC Jr. IBM was the leading computer maker in the world at this time. With mainframe dominance achieved in the 1960s, the computer industry was known at the time as “IBM and the seven dwarfs”—the dwarfs being UNIVAC, Burroughs, NCR, Control Data, Honeywell, General Electric and RCA. However, in 1982 IBM was not really committed to their PC Jr. Announced in November 1983, it sold only 270,000 units by 1985 and was discontinued in 1985 (Cringely, 2014). There were several factors that were cited for its failure. The biggest was that it was not properly engineered and designed. IBM also failed to market it properly and provided poor developer support. This weak backing of the PC Jr. by IBM management illustrates its mismanagement of the technology. The latter was a device that IBM produced without lofty expectations. To them the computer world was defined by massive mainframes. They considered the IBM PC Jr. to be no more than a toy, and the half-heartedness in which they fielded the PC Jr. was on full display in 1983 (Cortada, 2019). The most popular home computers in the USA up to 1985 were: the TRS-80, various models of the Apple II, the Atari 400/800 (1979) and its follow-up models, the VIC-20, and the Commodore 64. Other poorly designed PCs that also did not do as well due to poor management of technology were the Altair and TI-99 (Ibid).

Another factor was management’s inability to recognize when a technology was not mature enough. Management became so obsessed with the potential of a technology that it was willing to forge ahead with major strategic investments before a specific technology was ready. A good example of this was virtual reality. Research into the viability of virtual reality (VR) systems goes back five decades (Lum, Elliott, & Aqlan, 2020). Several small firms jumped readily into virtual reality in the 1980s and 1990s and incorporated it into their business models. These included such companies as VPL Research. The idea of putting on special goggles and gloves and immersing oneself fully in a 3-D game or training session appealed to many who thought the technology was ready. However, the consumer public was far from ready to engage in these exercises. VR never took off commercially, even though some useful niche applications, such as providing surgeons with a way to practice tricky medical procedures, still exist (Haskin, 2007).

A third factor was the inability to estimate the large costs associated with bringing on modern technologies is the next factor to be reviewed. Here we see a number of firms in the latter 1900s that failed due to this factor. Iridium’s idea to launch sixty-six satellites that could be linked in a network to route calls all around the world seemed to be the future of world-wide instant communications. In Wired magazine’s 1998 cover story heralded Iridium and stated that “Iridium may well serve as a first model of the 21st-century corporation. However, Iridium’s managers grossly mismanaged the cost of the technology to bring such a complex satellite system into fruition. Also, these managers failed in their

market research to accurately determine what users were willing to pay for their service. Specifically, most users did not wish to pay their estimated dollars per minute of call time. Another factor that they missed was that users were unwilling to carry around a phone larger than a brick. Less than a year later, *Wired News* backtracked, saying, “After losing nearly US\$1 billion in two disastrous quarters, the engineering marvel is in danger of becoming the Ford Edsel of the sky” (Ibid).

The Apple Newton was another product that used modern technology and was overpriced when it debuted in 1993. Pushing the state-of-the-art, the Newton promised many features that were too advanced for its time e.g., personal information management. However, the device was huge and expensive. It cost approximately \$700 for its first model and \$1000 for later, more advanced models. Released in 1995 a smaller, cheaper PalmPilot became the device that the market much preferred. When Steve Jobs returned to Apple in 1997, he quickly killed the Apple Newton (Issacson, 2011).

A last factor affecting mismanagement was industry paradigm shifts in technology. The 1980s and 1990s digital revolution is noteworthy. Kodak is a firm that completely missed the decline of analog technology with the rise of digital technology. A technology company that dominated the photographic film market during most of the 20th century, Kodak used analog photographic chemicals and film. Even though they developed the world’s first digital camera, Kodak’s management was so focused on the success of photography film that they missed the future major paradigm shift in technology. When the Digital Revolution hit in the latter part of the 20th century, Kodak decided that its future was to stay with their venerable, analog processes (Kotter, 2012). Even though they developed the world’s first digital camera, Kodak’s management was so focused on the success of photography film that they missed the onslaught of the digital revolution. They failed to keep innovating and filed for bankruptcy in 2012 (Ho & Chen, 2018).

Fujifilm, a competitor of Kodak, pursued a completely different strategy in the management of their technology (Shibata, Baba, & Suzuki, 2022). While Kodak had been enamored with their traditional analog technology, “silver halide” technology (named after the chemical compounds in Kodak’s film), Fujifilm and other competitors took different paths. Fujifilm diversified away from the declining film market and moving into the digital mainstream (Ibid). Fujifilm, which was always the challenger in the shadow of Kodak, learned to be bold and innovative to close the gap with the historic leader. In addition to moving into digital, Fujifilm opened factories in the USA in the eighties, and it dared to challenge the Kodak marketing empire in its backyard when it won the rights to sponsor the 1984 Los Angeles Olympics. In addition, Industry outsiders—Hewlett-Packard, Canon, and Sony—did even a better job. They launched products based on home storage with home printing capabilities and, in the process, uncovered new demand for convenience, storage, and selectivity” explained the *Harvard Business*

Review in 2002. Two years later, Facebook was born, and soon after that, prints became outdated. Most consumers were not going to print pictures anymore. Instead, they would share them online (Ibid).

Motorola was another American firm that failed to consider the Digital Revolution. In the 1995-time frame, Motorola was the best phone maker in America. AT&T went to Motorola and requested that they provide them with one million digital phones. Motorola responded that they would be happy to honor AT&T but insisted that they be analog phones (Nair, Ramalu, & Kumar, 2014). AT&T thanked Motorola but advised them that they needed the phones to be done with the new digital technology. AT&T then turned to a little telephone manufacturer in Finland and asked if they could provide the requisite number of phones. Nokia advised that they must scale up their operations to provide such many phones, but they would be willing to do so at the right price. AT&T complied, and the order would put Nokia on the map as a major digital telephone provider (He, Lim, & Wong, 2006).

3. Post 2000 Mismanagement and Toxic Leadership

The Literature Review covered primarily Pre-2000 Poor Management. The focus on this section will be on the trends that have occurred in the most recent twenty-four years. This includes continued poor management along with a major increase in ethical violations. Abuse and corruption in firms started to occur at an increased rate as the 21st Century approached. This was due in large measure to more cases involving bribery, commodities fraud, price fixing, tax evasion, and insider trading of stock (Ferguson, 2012). Ivan Boesky, Michael Millken, Charles Keating, and celebrities such as Martha Stewart went to jail for violations of these practices.

3.1. Early 21st Century

The early part of the 21st century saw a sudden and unexpected increase in toxic leadership. Corruption worsened and morphed into toxic leadership where it was now resulting in the demise of entire corporations. Toxic leadership has been defined as leadership that leadership that violates the interest of the organization and the well-being of followers. It normally has three dimensions: 1) Narcissism manifested as an Inflated view of self, arrogance along with a sense of entitlement; 2) Machiavellianism which involves being manipulative with the willingness to use and exploit others: and 3) Psychopathy which shows up as being antisocial, vicious, ruthless along with a major lack of empathy and caring for others (Nahavandi, 2015). The cases now to be discussed can be traced to many of the attributes of toxic leadership just discussed.

The most famous case that occurred in 2003 was the ENRON Corporation. Enron is an oil and gas company that engaged in huge fraud transactions. CFO Fastow used accounting software to create a network of shell companies de-

signed solely to do business with Enron, for the ostensible dual purposes of sending Enron money and hiding its increasing debts. He also used broadband technology illegally to trade commodities. Both initiatives failed, but Enron was able to record non-existent profits for these ventures (McLean & Ekland, 2013). Other such fraud centric initiatives by manipulating ENRON's accounting software result in the firm's Chapter 11 bankruptcy in 2001. Due to this massive fraud, many of its employees lost their pensions and life savings, while investors lost over \$11 billion in shareholder value. CEO Ken Lay was sentenced to prison but died before entering jail. Both Andy Fastow and his wife also served sentences in jail. Around the same time Bernie Ebbers, the CEO of WorldCom, followed suit as a toxic leader. His company collapsed in 2002 amid revelations of similar behavior and accounting irregularities. This was also one of the largest accounting scandals in the United States (Jeter, 2003). Ebbers were convicted of fraud and conspiracy. He is served 13 years of a 25-year sentence. Due to these and several other huge fraud cases (e.g., Tyco International and Adelphia), Congress enacted the Sarbanes-Oxley Act in 2002. This act was targeted at the management of public companies, as well as their Board of Directors. It added criminal penalties for management misconduct, and required the Securities and Exchange Commission to create regulations for defining how public corporations are to comply with the law (Arbetter et al., 2009).

3.2. Financial Crisis

The Financial Crisis of 2007-2009 brought a new wave of unethical behavior and toxic leadership, primarily in the banking and financial sectors of the economy. The crisis was a systemic failure brought about by a variety of contributing factors. However, embedded in virtually all of the major factors were unprecedented greed and ethical lapses demonstrated by the poor management of: 1) the major US banks i.e. Goldman Sachs, Bear Stearns, Lehman Brothers, AIG, and Merrill Lynch; 2) the quasi-governmental banks such as Fannie Mae and Freddy Mac; and 3) large mortgage firms that had grown rich with sub-prime mortgages such as Country-Wide and Ameriquest (Foster & Magdoff, 2009). Stephen Arbogast's RCC book documents in detail the specific poor management and toxic leadership that occurred in these firms (Arbogast, 2022). The results were catastrophic for many major financial institutions: 1) Bear Stearns and Lehman Brothers went bankrupt; 2) Merrill Lynch had to be rescued by Bank of America; 3) Fannie Mae and Freddy Mac went into conservatorship and remained there through 2022; 4) Country-wide and Ameriquest went bankrupt; and 5) AIG had to be bailed by the government with a huge loan (Ibid). Without major government interaction and capital infusions (TARP funds and Quantitative Easing), the fallout might have been catastrophic and brought on a major depression in the United States. As many of the bad financial instruments had been sold all over the world, the global effect of the US financial crisis was also toxic to many countries who also had major setbacks (Ibid).

3.3. Ponzi Schemes

Madoff's Ponzi Scheme was worth about \$64.8 billion. Madoff had gained prominence in the 1960s, when he founded Bernard L. Madoff Investment Securities LLC as a broker-dealer for penny stocks. His firm then began using innovative computer information technology to disseminate its quotes. Madoff continued to use this and other information technologies which then evolved in the 1970s into the National Association of Securities Dealers Automated Quotations Stock Market (NASDAQ). Later, Madoff would become its chairman. With this platform and by also engaging in several humanitarian initiatives, Madoff became a highly acclaimed financier. He started his now famous Ponzi scheme in the 1990s. Essentially, Madoff promised his clients high returns on their monies, stating that he was investing their funds in lucrative investments. In fact, he was failing to do so (Henriques, 2012). Finally, in 2009 it all came to a head when Madoff pled guilty to a variety of criminal charges including perjury, money laundering, mail fraud and false SEC filings. This was triggered by a criminal complaint filed earlier, which stated that Madoff had defrauded his clients of almost \$65 billion. Madoff was found guilty and subsequently received a maximum sentence of 150 years in federal prison. Madoff later died while incarcerated. Over 24,000 investors of Ponzi were seriously injured by his scheme. They were only able to recover much less than a quarter of their total investments (Jordanoska, 2017). However, the consequences of Ponzi's actions have gone well beyond his malfeasance. In the past few years there has been a surge in imitation Ponzi schemes. 57 Ponzi schemes were discovered in 2022 representing \$5.3 billion in investor funds. This was a 70% increase over the prior year when thirty-four schemes were uncovered. The average size of a scheme in 2022 was \$94 million (Ponzitracker, 2023).

3.4. Recent Toxic Leadership and Mismanagement

The last ten years saw toxic leadership and mismanagement in a variety of industries: construction, extraction (oil, gas, and mining), transportation and storage, and investments and finance (Beattie, 2022). In addition, news media has covered a variety of serious problems in such industries as sports (e.g., FIFA), crypto currency (e.g., Bankman-Fried at Alameda Research/FTX Crypto), health technology and automotive. This paper will focus on two of the recent egregious cases once the Ethics Model is discussed.

4. The New Leadership Model in Course Design

The primary contribution of this paper is the New Leadership Model that complements the RCC Book. While the book provides ample poor leadership and toxic leadership cases in the last twenty-four years, it is the Leadership Model that takes the analysis of these cases to a new level. By redesigning the major leadership course around this model, students gain much deeper insight into the

cases and study of leadership. .

The New Leadership Model is also called the Five Step Model. It is needed to analyze each case and is contained in **Appendix B**. This new innovative model is used by the Groups in their analysis and development of their Power Point exercises. In class the professor discusses how to properly employ the Five-Step Model and illustrates it in an actual case. Below is an abbreviated version of the five-step model:

- Step 1. Name the main protagonists and antagonists in the case and a clear statement of the Ethical Issue(s).
- Step 2. Define the Ethical Boundary Condition(s). These are the ethical and moral standards that were breached and put the firm into serious ethical trouble.
- Step 3. What were the consequences to the firm and protagonists when the Boundary Conditions were exceeded?
- Step 4. What were the feasible strategic alternatives (with pros and cons) that were available to the protagonists? Feasible alternatives are options that would have kept the firm from straying beyond the Boundary Conditions?
- Step 5. What is the group's recommended strategic alternative (with rationale) along with a Strategic Plan outline?

The groups have five weeks to prepare a 20-minute PowerPoint presentation on their case. All groups present their twenty-minute Power Point presentation in Weeks six and seven of the class. In the presentation groups are encouraged to integrate classical ethical concepts taught earlier. Examples include: 1) Aristotle's and Confucius' "Golden Mean of Moderation" (Tamblyn & Legge, 2016); 2) Judeo-Christian "The Golden Rule" (Rae & Wang, 1996); and 3) Kant's "Categorical Imperative" (Bowie, 2002). Groups then have an additional 25 minutes for group interaction. This involves: 1) conducting an interactive session with the class using a series of discussion questions that they have previously developed; 2) informing the class of the firm and individual consequences that occurred; and lastly 3) discussing interactively the significant 'Lessons Learned' from the case. The professor then caps each exercise with a critique using an Exercise rubric (**Appendix C**). The groups have performed admirably using the Five Step Model and conducting spirited interactive post-presentation sessions. Students have also responded well to the group's discussion questions and Lessons Learned. Concerning suggestions for additional teaching uses, the interaction session described above is a major plus to the exercise. Debates often occur as students often challenge the group on their best alternative chosen. Students are also held responsible in their final exam for questions on the cases. Class feedback on the RCC cases has been excellent.

5. Recent Toxic Leadership and Poor Management Cases

Two recent cases will now be discussed in some detail. The first is the VW Emissions Scandal Case. VW is a German Engineering automobile company. It fo-

cuses on the toxic leadership of CEO Martin Winterkorn who took over VW in 2007. The second is in the health industry and is the infamous Theranos fraud case. The CEO of Theranos, Elizabeth Holmes, is highlighted as the main antagonist who managed this firm into complete ruin.

5.1. The Volkswagen Case

VW is a German Engineering automobile company. In 2007 they were struggling with diesel emissions standards. Their new diesel was producing emissions that would exceed EPA standards in the United States. For some time VWs engineers were under pressure by VW management to solve this problem. Unable to find a fix, the engineers were forced by a toxic management to produce a work-around that would allow the diesels to pass the EPA standards. Under this pressure they produced a “Defeat Device” that could be installed in the diesel cars. This device had a binary switch so that: 1) When the diesel was being tested by EPA, the car would operate in the dyno mode, with less power, but complying with low NOx emissions; and 2) when on the road software would switch the car back into the normal operating mode with up to 35x the emissions from the dyno mode; in this mode the car would operate way over EPA minimum standards. This device was installed with the full knowledge of the new CEO (Martin Winterkorn) and his staff. The vehicle was produced and sold in the United States between 2008 and 2015.

In 2015 Hemanth Kappanna was a junior engineer working in a small team for General Motors in West Virginia. Their job was automobile emissions testing. Kappanna was doing his emissions testing outside of the lab and concluded that the outside emissions from the Volkswagen diesel were dirtier than projected to the public. When asked to testify later in California at an emissions forum, he made his findings known to the EPA. The EPA quickly reacted upon realizing that their indoor testing had been duped. When VW was confronted with this, CEO Winterkorn blamed the problem on the separation of the C-level suite and middle management. Middle management blamed the engineers. VW had been previously caught manipulating emissions testing in the early 1970s, the EPA moved decisively. VW recalled eleven million cars immediately and pledged \$6.7 billion dollars for repairs. However, that was not enough to satisfy this gross mismanagement of VW’s technology. In January 2017 VW pled guilty to criminal charges of defrauding the U.S. government and obstructing a federal investigation. In addition to a \$15.3 billion settlement with U.S. regulators, VW agreed to pay a \$2.8 billion criminal fine and \$1.5 billion in civil penalties. This was the largest settlement in the history of automobile-related consumer class action cases in the United States. The other fall-out that ensued was: 1) CEO Winterkorn was seen as unethical and a toxic leader; he was fired along with a number of key other executives; 2) the company lost 46% of its shareholders values, about 42.5 billion dollars; 3) investors suffered major losses as the stock price declined; and worst; 4) the pollution in the US from 2008-2015 put

people's health at risk. An MBA presentation is available on request that demonstrates the use of the New Leadership Model in the VW case.

5.2. The Theranos Case

Elizabeth Holmes was a student at Stanford University in the early 2000s. For a summer internship, she traveled to Singapore and worked in the blood laboratories there. She became appalled at the amount of blood being drawn from patients to evaluate for diseases. She was drawn to nanotechnology at Stanford and set out to find a simpler way to evaluate diseases. She then dropped out of Stanford and directed her energies into forming Theranos, a private Health Technology company in the mid-2000s. She did this with the assistance of a chemical-engineering professor at Stanford as her science and technical advisor.

Holmes maintained that Theranos could use a single finger-prick of blood to accurately predict many diseases. The Theranos device that they claimed could do this was named "Edison". It was a machine that they stated had been developed in-house. Holmes was good at raising a considerable amount of capital to fund her firm. Many well-known industrialists and dignitaries invested in Theranos, to include several technology CEOs: two Secretaries of Defense General James Mattis and former Sec Def William Perry; and two former Secretaries of State Henry Kissinger and George Shultz. Theranos was able to raise more than \$700 million from those cited as well as venture capitalists and private investors. This resulted in a \$10 billion firm valuation by 2014 (Arbogast, 2022). Also included in investors was Walgreens, which invested heavily in Theranos. Theranos Wellness Centers in Walgreens started to appear around the country starting in 2014 (Ibid). The ethics issue that was unfortunately present was that Holmes was duping everyone by claiming that it was her Edison machine that was predicting the results being furnished to Walgreen's and other customers. In fact, the Edison machine was rendered ineffective and incapable of providing accurate results. The Edison test results were "erratic and different" compared to Siemens. Some results even erroneously showed patients having HIV and Hepatitis (Ibid).

This was known by Holmes and only a few others, including Theranos executives (e.g., COO Sunny Balwani). Instead of being transparent on this, Theranos lied to everyone including their users and investors. In fact, they were secretly diluting the finger-prick blood samples and using a German company's machines (Siemens) to help provide their results (Carreyrou, 2020). Also aware of this deception was Theranos' Lab Director Adam Rosendorff and several others employed in the lab (lab Assistants Adam Schulz and Erica Cheung. Rosendorff was appalled and went to Holmes on this breach of ethics. However, he was met with hostility and rejection. Unable to convince Holmes and Balwani to stop running HIV tests on a finger prick and covering up their results, Rosendorff retreated but knew something had to be done. However, he soon found out that getting past Theranos' strict policies and guidelines proved to be a huge chal-

lenge. Theranos was using the following tactics: 1) all employees were required to sign non-disclosure agreements (NDAs); 2) security cameras had been plastered everywhere and security personnel (ex-military) roamed the halls; 3) with multiple laboratories, personnel could not go between labs; 4) the windows were tinted “to prevent spying”; 5) employee emails and calls were closely monitored; and 6) any employee who indicated any dissatisfaction was intimidated and threatened with huge lawsuits. Feeling totally stifled by these restrictions, Roesendorff decided to resign and quietly disappeared in 2014. However, after a few months he felt obliged to do something. He wrote to John Carreyrou at the Wall Street Journal and furnished him with an outline of the situation at Theranos (Ibid). Carreyrou would later testify that this was the first inkling of knowledge he had about the potential fraud going on at Theranos and put him on a trail of discovery (Carreyrou, 2020).

Two Lab workers were also sufficiently concerned and tried to alert higher-ups of the true nature of affairs. Tyler Schulz was the grandson of former Secretary of State George Schulz, who was sitting on the Theranos Board of Directors. He went to his grandfather and tried to advise him of his ethical concerns. The elder Schulz then called Holmes and was assured that Tyler was ignorant of the big picture and that everything at Theranos was ethically sound. Secretary Schulz had a large stake in Theranos and chose to believe Holmes. Tyler was threatened with lawsuits and elected to resign. A second lab worker who tried to be heard initially within the firm was Erika Chung. When she received similar harsh treatment (i.e., potential lawsuits), she was so frightened that she prepared to leave the country and travel to Hong Kong for safety. However, before she was able to leave, Erika contacted Carreyrou with more details of Theranos' nefarious operations and emailed the government lab inspector in the Center for Medicare and Medicaid Service (CMS). Then on Oct 16th, 2015, Carreyrou went to press with an article with circumstantial evidence that Theranos had defrauded their investors and the CMS, Theranos' accrediting agency. CMS reacted quickly and investigated the Theranos operation. They initially found that Theranos had unreliable devices, sloppy lab practices, had cheated on proficiency testing and misled inspectors during prior visits. A subsequent CMS lab investigation found forty-five deficiencies which Theranos proved unable to correct. Thereafter, the CMS permanently shut down the Theranos labs in 2016 (Arbogast, 2022).

On June 14, 2018, Elizabeth Holmes, and “Sunny” Balwani (Theranos COO) were accused on sixteen combined charges of fraud and conspiracy to committed fraud. This included: 1) Holmes had incorrectly maintained that Theranos could use a single finger-prick of blood to accurately predict many diseases; 2) Elizabeth Holmes committed fraud and engaging in unethical actions against her employees to not reveal Theranos' malfeasance; 3) they were lying to investors, Walgreens, and users by providing results from Siemens and presenting them as from their own Edison machine; and 4) they had been interfering with potential

inspections and audits by government agencies. Based on the trial; Walgreens, Walmart and a host of prominent political figures filed a class-action lawsuit against Theranos (March 2020). The global pandemic caused delays in the trials. Both were finally found guilty on all counts of fraud. Balwani received a prison term of 12 years and 9 months while Holmes received 11 years. Pregnancy delayed her incarceration, but she was finally sent to jail in May 2023.

5.3. Lessons Learned from the Cases

Lessons learned from these cases using the new Leadership Model included: 1) Don't fake it, until you make it; Silicon Valley firms have too often used this strategy to acquire capital for technology based initiatives, often failing to produce the promised outcome; 2) A failure is not a loss, but rather a lesson that you can grow from; Holmes willingness to accept failure early on may have prevented the monumental downfall of her company; 3) one should accept responsibility and avoid blaming others; taking responsibility enables both the leadership and employees to own their actions and the consequences.

6. Conclusions and Recommendations

This paper has presented an innovative approach to use in the course design of leadership classes. This applies particularly in the teaching of management cases that involve poor management and/or firms that have experienced toxic leadership. The main contribution to research in this paper is the New Leadership Model. Analysis of poorly managed firms by students is enhanced by using this model. It is also concluded that the teaching of leadership, especially toxic leadership, requires the use of a book that has hard-hitting corporate corruption cases. Such a book is *Resisting Corporate Corruption (RCC)*, 4th Edition cited in the References. The synergy is gained by juxtaposing the New Leadership Model and this book provides many benefits in the teaching of leadership. The New Leadership Model is available and should also be considered by major firms. This is true specifically when such firms are employing risk management techniques and considering the potential hazards of risky decision-making.

Future research needs to focus on educating future business leaders on the risks associated with poor management and toxic leadership. With rapid advances in technology, it is becoming more difficult for managers to keep up with changes that are affecting their industries. Such new challenges are being posed on a variety of fronts to include stunning new advances in such technologies as Artificial Intelligence, Blockchain and Virtual Reality (Lum, Elliott, & Aglan, 2020). In the past, corporate leaders could rely on subordinates to monitor such changes and had more time to adjust to these changes in their respective industries. Sarbanes-Oxley, Dodd-Frank and other legislation have put top management on notice that CEOs can no longer lay the blame for failure on subordinates if old risk management methods fail them. Such leaders will be held accountable and as such, need to be educated better in risk management tools. The New Leader-

ship Model is recommended as one of the tools that can be employed by leaders and by students studying the pitfalls of poor leadership and toxic leadership.

Conflicts of Interest

The authors declare no conflicts of interest regarding the publication of this paper.

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Appendix B. Five Step Analytical Model

Step 1	Identify the main protagonist in the case and include a clear statement of the Ethical Issue(s).
Step 2	Define the Ethical Boundary Condition(s) in the case i.e., what were the firm's ethical limits that when exceeded violated reasonable ethical and moral standards.
Step 3	What were the consequences to the firm and protagonist of the Boundary Conditions being exceeded?
Step 4	What were the feasible strategic alternatives (with pros and cons) that were available to the protagonists i.e., what alternatives existed for the protagonist that would have kept the firm from straying beyond the Ethical Boundary Conditions?
Step 5	Which of these alternatives is best, including the rationale for choosing it; also, an outline of a basic Strategic Plan to implement this alternative is required.

Appendix C. Rubric for a Real-World Ethics Case

Rubric for a Real-World Ethics Case	Score
Did the students produce a clear statement of the Ethics Issue(s)?	
Are the Ethical Boundary Conditions realistic and complete?	
Does the presentation adequately cover the subject matter?	
How clearly and concisely do the authors convey information?	
Is the recommended alternative rational and properly supported?	
Do the students properly acknowledge and reference the works of others?	
Is the outline of a Strategic Plan consistent with and support the findings?	
Is the class discussion effective in engaging the class in a productive session?	
“poor” (1), “fair” (2), and “good” (3)	
TOTAL	

Appendix D

- **Mismanagement** is defined as the process of making poor strategic and/or tactical decisions in the management of a firm or other system. It can be caused by a variety of factors such as incompetence, poor ethical decisions, abuse, or corruption.
- **A Ponzi Scheme** is an investment fraud that pays existing investors early, excessive returns with funds collected from new investors.
- **The Digital Revolution** was a major paradigm shift that occurred in the later part of the 20th century in which formerly analog technologies were replaced

by digital ones.

- **Corruption** is abusing one's power to benefit oneself or another person. It is unethical and illegal (Nahavandi, 2015).
- **Toxic Leadership** is leadership that violates the interest of the organization and the well-being of followers.

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