

If Kilpatrick were a CEO, he'd be fired

Ethical errors end corporate careers quicker than any other mistake

BY DAVID HESS

What would happen if Kwame Kilpatrick, who is accused of having an affair with his chief of staff and lying about it under oath, were the chief executive of a major corporation or nonprofit group instead of the mayor of Detroit?



Hess

Consider the cases of Mark Everson, former chief executive of the American Red Cross, and Harry Stonecipher, former chief executive of Boeing. Both took over organizations facing troubled times. The Red Cross was facing criticisms for its handling of Hurricane Katrina and Boeing for illegally attempting to hire a government procurement official. Both CEOs were subsequently praised for exercising great leadership in those difficult situations and placing their organizations back on track.

How affairs end careers

The praise soon ended, however, when both were forced to retire within days of their organizations learning that they were having extramarital affairs with subordinate employees.

We could debate the fairness of the punishment. In each case, these were consensual relationships, and the organizations did not appear to be facing any legal liability from their CEOs' actions. We could also debate the business case of the punishment. Before the allegations, both organizations believed they had finally found a leader to return their organizations to greatness, and their private affairs would not seem to affect their strategic decision-making.

So why the harsh punishment?

The boards of directors believed those actions reflected poorly on their respective CEOs' judgment and ability to lead their organizations in the future. How do I know this? Both issued press releases stating exactly that.

Gone are the days when CEOs' perceived moral transgressions are forgiven if they produce results. Gone also are the days when CEOs resign for "personal reasons." In the post-Enron environment, organizations expect their CEOs to exercise moral leadership and hold them publicly accountable for their actions.

A steadily declining share price? The board of directors will give you a second chance. An ethical violation that does not have an immediate, direct impact on company performance? A resignation is expected as soon as possible.

Business ethics scholar Robert Solomon once stated that ethical errors end careers more quickly and definitively than any other mistake in judgment. That statement could not be any truer for CEOs and other executives.

Everson and Stonecipher are not alone. Executives have been fired for similar transgressions at Starwood Hotels & Resorts Worldwide, WellPoint and Kaiser Aluminum. Extramarital affairs are not the only fatal errors. David Edmondson was forced to resign from his position as the CEO of Radio Shack after it was discovered that he lied on his resume.

Why moral high ground?

Why has corporate America taken the moral high ground in these situations? Looking inward, the CEO establishes the values of the organization. "Setting the tone at the top" has been the mantra of compliance and ethics officers since Congress passed the Sarbanes-Oxley Act.

Codes of conduct are not

Chief executive ethics ousters

David Edmondson

Position: CEO of Radio Shack

Accused of: Falsely claiming on resume to have degrees in theology and psychology from California Baptist college. No evidence of theology degree. College says it offers no psychology degree

Result: Resigns in February 2006

Harry Stonecipher

Position: CEO of Boeing

Accused of: Having an extramarital affair with a divorced female executive several levels lower in the company

Result: Board of directors forces him to resign in March 2005



Edmondson



Stonecipher

Steven Heyer

Position: CEO of Starwood Hotel & Resorts Worldwide

Accused of: Sending sexually suggestive e-mails and text messages to an unmarried female employee and inappropriate physical contact with a female employee outside a restaurant restroom.

Result: Forced out in April 2007

Mark Everson

Position: CEO of American Red Cross

Accused of: Having an affair with a married female subordinate employee

Result: Board dismisses him in November 2007. Female employee stays.



Heyer.



Everson

Source: Detroit News research

enough. CEOs and senior management must actually demonstrate ethical behavior on a day-to-day basis. Stonecipher repaired Boeing's reputation by adopting and enforcing a stringent code of conduct. Thus, if the code was to mean anything, Stonecipher had to resign when he violated it.

And what was the provision of Boeing's code of conduct that Stonecipher violated? It was that "Employees must not engage in conduct or activity that may raise questions as to the company's honesty, impartially or reputation or otherwise cause embarrassment to the company."

Looking outward, corporations are keenly aware of the risks that ethical errors create for the organization. Markets and the public can quickly lose confidence in companies that demonstrate a lack of integrity. Likewise, if an organization faces an investigation for possible criminal violations, prosecutors will

want to know if the violation was caused by one bad apple or had the CEO created a bad barrel by ignoring the code of conduct.

Many of us have long been taught the front-page test. If you would be embarrassed if your actions were posted on the front page of the newspaper, then you shouldn't do it. Today, if your actions embarrass the company on the front page of the paper, then your days are numbered.

Kilpatrick is on the front pages. His chief of staff, Christine Beatty, has resigned. Wayne County Prosecutor Kym Worthy is conducting an investigation.

If Kwame Kilpatrick were a CEO, his fate would be a foregone conclusion.

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