COMPLIANCE WEEK

Personal Missteps Should Raise Eyebrows

By Patricia Harned, *Compliance Week Guest Columnist* — October 11, 2006

The cold pavement shocks your feet as you shuffle to the end of the driveway for the morning newspaper. You are almost back to the front door when you see it—a small headline below the fold containing the name of an executive at your company.

You rub your eyes, thinking that you're seeing things; but it's there. The article says your executive was spotted by a reporter two nights ago with an unidentified man at the bar of a prominent restaurant. The two talked briefly and shook hands, exchanging something in the process.

Suspicious, the reporter followed the stranger as he left the bar. The account says the man was confronted by the police a block from the restaurant and arrested for operating of a gambling ring and possessing of a small amount of illegal substances. No charges have been filed against your executive ... yet.

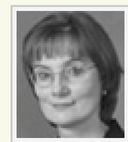
The temperature outside causes you to shiver—or is it the news story? You wonder how long it will take for this small headline to become a bigger one. The thought also occurs to you that this might end the executive's career.

But then you think, well, why should it? It's his personal business, no charges were filed, and no one was hurt. Just because the other guy is crooked doesn't mean your executive did anything wrong. After all, you wouldn't want the organization snooping around in your private life. And, really, what damage was done?

Many people firmly believe that what others do in their private lives should not matter to the office, as long as they are able to perform their jobs properly and safely. To a large extent this is true. As the president of an organization myself, I cannot (nor do I want to) tell my employees what they may or may not do in their off-hours. That is, so long as they continue to perform quality work, uphold our values statement, abide by our employee manual and the law, and do not maliciously harm the organization.

Recently we've seen boards of directors investigate and take action when chief executive officers engage in behavior that generally is not associated their respective company's moral standards. We've also read headlines of executive indiscretions that likely forced board members to consider the best way to respond. Time Warner's CFO Wayne Pace, Boeing's former CEO Harry Stonecifer, and even the

ABOUT THE AUTHOR



Patricia Harned has been president of the Ethics Resource Center since May 2004, serving in a variety of research and executive positions there since 1999. In those years she has led ERC to develop research and benchmarks that measure organizational ethics and compliance program effectiveness.

Harned has also helped shape ethics training for the securities industry, commented on the ethical dimensions of regulatory efforts by both the SEC and the U.S. Federal Sentencing Commission, and testified before Congress on federal legislation. She is the primary author of the 2005 National Business Ethics Survey, has written several book chapters on corporate ethics, character development and ethics education, and serves on the editorial board of *Public Integrity Journal*.

Harned welcomes specific questions from readers on ethical dilemmas they encounter; when appropriate, she will try to address them in future columns. She can be reached via email at Pat@ethics.org.

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Department of Homeland Security's Deputy Press Secretary Brian J. Doyle have faced difficult personal situations, which ended up causing concern for their organizations. Sometimes it seems that these leaders are forced out unfairly on the basis of rumor or gossip or even "doing something everyone does." Is that right? At what point do an executive's personal mistakes warrant board attention?

Consider some of the common reasons why organizations choose to ignore such incidents when they arise.

- **"It's personal, not business."**

  People make mistakes, and the easy choice for most boards is to consider personal incidents as beyond the purview of the organization. Nevertheless, top executives—and arguably many other key organizational leaders—are different from the rest when it comes to the privacy of their actions.

  In most cases, senior leaders are the human representations of the organization. As such, all of their actions have an effect, even if there is no legal consequence. Consider, for example, whether Ford Motor Co. would want its CEO to drive a Honda on the weekends, or whether the top executives at Microsoft should be calling technical support for their Apple computers at home.

  Such decisions aren't misconduct, but they would certainly draw unwanted attention. Likewise, to develop and maintain a good ethical culture, it is important that all leaders—and especially top executives—remember that they are always role models. This includes the decisions they make outside the workplace as well as those made in the daily management of an organization. In today's environment of continual newscasts and unlimited Internet access, executives live in a fishbowl. Not only is the media watching, but their employees are too.

- **"It's no big deal."**

  It is equally easy to find a matter too small to warrant board time and attention. Yet the best ethics program in the world can be unraveled by a simple dishonest act.

  And even if the indiscretion isn't related to the business, media reports of actions that reflect poorly on a leader's character can have a substantial impact on the bottom line. This is especially true for industries where public trust in a corporate brand is essential to business success. Distrust the leader, and the brand suffers overall.

- **"Let's not draw any more attention to the situation."**

  Boards are wise to avoid witch hunts, but at the same time, they have a responsibility to carefully review matters involving even the appearance of impropriety.

  If employees believe their top management skates close to thin ice—either personally or professionally—they will be more likely to regard the company as hypocritical when it asks employees to act honestly and with integrity. They also will be more likely to cut corners themselves.

- **"We'd only hurt the business."**

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would certainly draw unwanted attention."

Another age-old justification is regularly offered in the face of questionable executive behavior: that the individual is a great business executive, and taking action against him or her only would cause the organization to suffer.

This is being penny wise and pound foolish. According to Harvard Business School Professor Constance Bagley, "When we call on managers and directors to check their personal ethics at the door when they enter the executive suite or the boardroom, we desensitize the ethical tripwire that is often triggered before a person crosses the line and violates the law." Bagley goes on to say that a leader who becomes accustomed to disregarding his or her inner voice is more likely to rationalize other actions to the ultimate detriment of everyone.

Although confronting a CEO over incidents involving personal values is neither easy nor comfortable for a board, it is extremely important that directors do so. The mere act of investigating the issue, even if further action is not warranted, reinforces an important message for the organization and the public at large.