CEOs Stumble over Ethics Violations, Mismanagement

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Yahoo CEO Scott Thompson lasted just four months before revelations of résumé padding forced him to resign over the weekend.

Best Buy Chairman and founder Richard Schulze exited Monday after directors determined he used poor judgment for failing to disclose CEO Brian Dunn's personal relationship with a young subordinate, a violation of company ethics that led to Dunn's departure last month.

And JPMorgan Chase CEO Jamie Dimon is under fire after the investment bank's $2.3 billion trading blunder that's already cost a key deputy her job.

Most corporate executives aren't on the endangered species list and probably never will be. But increasingly, their personal and professional decisions are placing them in the cross hairs of angry shareholders, opportunistic hedge funds, disgruntled employees and even their own boards of directors — making the imperious CEO far more vulnerable to personal, public and corporate missteps than ever before.

"Certainly, anybody who is doing something that can be construed as unethical, immoral or greedy is being taken to task," says Paul Dorf of Compensation Resources, a consultant to boards of directors.

Ethical lapses such as extramarital affairs and résumé padding were part of Corporate America's dark underbelly long before the anything-goes era portrayed on TV's Mad Men, but lies and embellishments are no longer tolerated. Neither, it seems, are cozy arrangements like those of Chesapeake Energy's CEO Aubrey McClendon, who profited handsomely from personal stakes in company wells as part of his board-approved compensation package until he agreed to end the arrangement under pressure last week.

Excessive compensation packages are getting blowback from investors. In a rare advisory vote, Citigroup shareholders recently rejected a large compensation package for CEO Vikram Pandit. Other CEOs, including Avon Products' Andrea Jung, have been forced out — or up to a figurehead role — in the wake of poor performance.

What gives?

Corporate governance experts, board consultants and ethics experts say CEOs are under more hot-seat scrutiny for several reasons. Despite record corporate profits, unemployment remains stubbornly high. Excessive CEO compensation and inequities in pay and benefits have gained wide exposure by social movements such as Occupy Wall Street and out-of-work military veterans fresh off protracted tours in Iraq and Afghanistan.

Social media and business-centric websites such as glassdoor.com and vault.com have also spread fact — and rumor — about the inside dealings of Corporate America, revealing ethical
breaches and internal business practices that may never have surfaced before the Internet and a 24/7 media culture.

"God forbid anyone who isn't squeaky-clean these days or misrepresents their credentials at the top of the company," says Wendy Patrick, who teaches business ethics at San Diego State University. "Anything embarrassing and you begin to question everything. If they aren't making good decisions in their personal lives, it can bleed over to the way they run their companies."

In the post-Enron era of corporate meltdowns, companies are required to disclose more information that's easily dispersed on the Internet.

"The controlled cloak of what was happening at companies that leadership may have been able to control 20 years ago has really been torn away" by disclosure mandates required under Sarbanes-Oxley and other legislative and regulatory acts, says Myrna Hellerman, a management and board adviser with Sibson Consulting.

Whether there are more ethical lapses today than in the past, or more poor performers receiving oversize compensation packages, is open to debate, but Hellerman says that with information far more accessible than ever before, "People feel empowered to comment and protest as to what's going on in an organization."

The pressure and scrutiny on performance has shortened the tenure of the average CEO from about 10 years to about 5½ years since the 1990s, says John Challenger of consultants Challenger Gray and Christmas.

Challenger notes that only 42 CEOs were forced out of their jobs in 2011 — the fewest in at least five years — but says the pace could pick up this year. So far, overall CEO turnover is up about 5% from 2011.

The recent spate of departures, voluntarily and otherwise, could create a bandwagon effect on turnover.

"Boards are reading the news like everyone else," Challenger says. "If they see other boards taking action, they may contemplate something similar. It could be a big wrong that forces people out or an accumulation of wrongs."

**Boards are getting tough**

Corporate-governance experts say many boards are finally ending their image as rubber-stamping friends of CEOs. Now more autonomous, and in the wake of more legal and institutional-investor scrutiny, boards are more cognizant of auditing and compliance issues and more sensitive about lavishing executives with excessive compensation and perks.

"Most boards have been perceived as a bunch of older white men who are in the same country club set as the CEO," says Dorf of Compensation Resources. "The reality is, boards are much more concerned about what the outside view is."
"Boards do seem to move faster" to deal with scandals and public failings that attract shareholder and media attention, says Lucian Bebchuk, director of the corporate governance program at Harvard Law School.

"From the perspective of shareholders, it is important for directors to monitor and review executive performance carefully and without favoritism to the executive," he says. At the same time, they need to "avoid unnecessary pushing of executives under the bus."

Achieving that balance "is an important and difficult role," Bebchuk says.

Many boards are increasingly able to find that equilibrium, says Charles Elson, director of the University of Delaware's John L. Weinberg Center for Corporate Governance.

"Boards are much more active than they used to be," he says. Many members have realized the importance of reacting quickly to brewing troubles, as well as maintaining some independence from the CEO.

"Twenty years ago, they (board members) may have looked the other way," he says. "Not today."

Elson says board members may also have an added financial incentive to do what's right for a company — rather than stay loyal to a CEO — because many now receive company stock as part of their compensation.

That "aligns their interest" with shareholders, he says.

Yahoo, which has gone through a succession of recent CEOs, had to act quickly to maintain the company's integrity, Elson says.

**A tough position**

But terminating a CEO is not always a simple decision.

"The bigger question for the board is, if you have a poor-performing CEO, how long does it take you to pull the trigger?" Elson says.

In the case of Avon, which in April replaced longtime CEO Jung with Sherilyn McCoy, "That board took way, way too long to deal with that," he says.

Under Jung, Avon faced high-profile financial and legal issues, such as declining U.S. sales, a falling share price and an investigation into alleged bribery of foreign officials.

Elson says that sometimes such a delay can come when there is a close relationship between a board and CEO, which can make it difficult for a board to look at a situation independently.

**Résumé fraud, quick action**

In the case of lying on a résumé, most boards would move quickly, he says.
"If you look the other way, it's impossible to enforce the integrity of the organization," he says. "You can't rely on someone who has shown a veracity issue."

He adds, "As a board, it is pretty tough to defend someone with a false résumé. The résumé is a critical document. It represents who you are to the world."

Roger Martin, dean of the University of Toronto's Rotman School of Management, says lagging stock prices, such as those of Yahoo, Best Buy, Avon and other companies, will cause more scrutiny at other companies.

"It's all very natural because of the financial markets," Martin says. "It's about what have you done to make the stock price higher. You can't keep shareholders happy forever. Many of these disclosures seems to be a function of performance, and that's not going to go away.

"It's still about making money."