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Was Boeing's punishment too harsh?

By Del Jones, USA TODAY

Are boardrooms reaching into CEO bedrooms?

Boeing's ([BA](#)) Harry Stonecipher may not be the first CEO to have an extramarital affair. But in the past it likely would have inspired a hear-see-speak-no-evil response from boards as long as the CEO could keep his workplace mistress content and away from sexual-harassment lawyers.

Michael Critelli, CEO of *Fortune* 500 company Pitney Bowes, says there isn't more "snooping" than in the past, but directors move faster and decisively. The Boeing board found out, authorized a quick investigation and dished out a severe penalty. "Maybe we've reached a point where rules have gotten too harsh, but directionally it was appropriate," said Critelli.

A chief executive always is obligated to set the tone, says Frank MacInnis, CEO of *Fortune* 500 company Emcor. However, Stonecipher's affair was "very close to the dividing line between private matters and those which breach the CEO's duty," MacInnis said.

Former Medtronic CEO Bill George says Stonecipher is "a good person and an excellent CEO who apparently made a mistake. CEOs must be willing to set a high standard. ... They must emulate the values they preach."

The 68-year-old Stonecipher, married and a grandfather, was forced to resign this week after his affair with company Vice President Debra Peabody, 48.

Boeing may be special case

Some CEOs interviewed believe Boeing is a special case because it is climbing out of Pentagon scandals that sent two Boeing executives to prison and barred it for a time from competing for missile-launch business. Former CEO Phil Condit was forced out in connection with one of the scandals, and directors were feeling raw over being asleep at the switch. When Stonecipher came aboard 15 months ago, he faced unusual pressure to be ethically and morally



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Stonecipher's firing, however, may usher in a new attitude on corporate boards about CEOs and all things personal.

When Vern Raburn took over as CEO of Eclipse Aviation five years ago, the board, concerned about risks, crossed into his personal life by ordering him to quit flying in air shows. Raburn, a passionate pilot, ignored the demand, although he's now too busy to fly in shows anyway.

That was before "Kozlowski, Lay, Ebbers and whoever," Raburn says. "The CEO community has brought some of this on themselves."

In France, the public tolerates elected officials and their mistresses. But CEOs are held to a higher standard, says Patrick Ternier, a Frenchman and former chief CEO of Artemis France.

Ternier, now CEO of the Newport Beach, Calif., software company, says companies worldwide face the same threats, so they must respect similar guidelines.

Good corporate governance rules trump local culture, he says.

Debra Fine, CEO of Small World Kids, says she doesn't fear her "very tough board" will dig into personal matters. They would take notice if she were in a drunken accident.

"A board can fire a CEO who does something that affects the stock price," she said.

Ralph Ward, publisher of the online governance newsletter *Boardroom Insider*, says most large companies now have systems in place that let employees report misdeeds in confidence.

The systems were designed to flesh out financial irregularities that can lead to Enron-like meltdowns, but employees have seized on the opportunity to report things of a personal nature.

As in the Boeing case, the complaints arrive via the protocol established by top management, so they are difficult for the board to ignore, Ward says.

Deeper problem may lurk

Not everyone sees it as healthy. "Lately, morals concerns have been couched in other guises such as judgment problems," says Ray Gallo of Los Angeles-based Gallo & Associates, a law firm that represents senior managers.

Says Gallo: "What on earth does Mr. Stonecipher's consensual affair with a woman in another office ... have to do with Boeing's financial and operational performance? All I've heard about is a dirty e-mail that Harry sent to a woman who apparently appreciated it. ... I'm interested to know what's being done about the spy who was reading someone else's e-mail."

Company codes of conduct usually allow relationships among colleagues, but prohibit them between managers and subordinates,

says Lee Essrig of the Ethics Officer Association. "Obviously, as CEO, everyone is a direct or indirect report," she says.

Officially, Stonecipher was fired because his judgment impaired his ability to lead, Boeing chairman Lew Platt said. But Ward said the instant firing was so unusual that it doesn't pass the smell test.

MacInnis said that for the board to act so quickly, something was about to spiral out of control, perhaps "e-mail leakage" that would have demonstrated further lapses in Stonecipher's judgment.

Fine says it takes but a little reading between the lines to conclude that Boeing had concerns about a sexual-harassment lawsuit.

The primary task of a board is risk management, and Boeing had no choice but to fire Stonecipher, says Nell Minow of The Corporate Library. But that should not let the directors off the hook.

"I am deeply concerned about the trigger-happiness of boards," Minow said. "Firing the CEO is attacking the symptom, not the disease. It is usually a sign that (the boards) have failed to communicate their standards and expectations effectively."

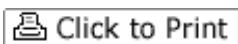
The Boeing case is part of the Enron legacy, Minow says.

"There is a lot of talk about tone at the top. This is exactly what it means. The CEO's personal integrity has to be unquestionable or he cannot have the leadership ability necessary to do his job."

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