

Sex, lies and corporate governance

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Yet again, the whistleblower seems to be the most effective means of ensuring good corporate governance, this time at Boeing. At the beginning of last month, the board asked for and received the resignation of its president and CEO, 68-year-old Harry Stonecipher. The reason? An affair between him and a female executive discovered after anonymous information was sent to the board's non-executive chairman, Lew Platt, and to Boeing's legal and ethics leaders.

While the affair itself does not appear to have broken Boeing's code of conduct, it did breach the requirement that employees are not to engage in conduct or activity that may raise questions as to Boeing's honesty, impartiality, or reputation or that may cause embarrassment to [it]. All this must have been very distressing for Stonecipher – he had been instrumental in seeking to improve ethical standards at Boeing and its share price had increased by 52% under his leadership.

The issue of sex, despite being so potent for corporate governance, has attracted surprisingly little attention. This is worrying since there have been previous allegations made relating to prominent UK companies (see, for example 'The Dome director, her lover and a £27m probe' in the *Daily Mail*, 21 October 2000). Nor have such questions been restricted to limited companies: the Portman Building Society was criticised for its handling of such an allegation ('Secret campaign of Portman bosses', *The Mail on Sunday*, 30 November 2003).

Sex and the City

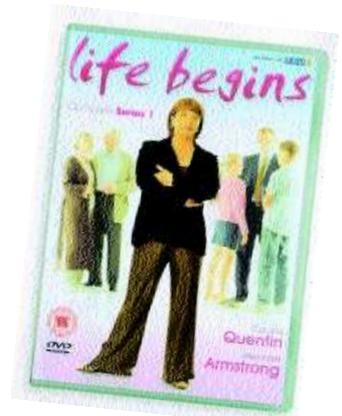
So what's wrong with sex and the City? Isn't consensual sex between

ageing males and up and coming females par for the course? Perhaps rather sad but no-one else's concern? No. In my view Boeing got it right. As Boeing stated, 'the CEO must set the standard for unimpeachable professional and personal behaviour'.

The problem with affairs is that they are difficult to commit without a little bit of lying and cheating. 'Darling, I'll be late back tonight, I'm tied up with the auditor'. All rather sordid and liable to go wrong, as fans of the recent TV series *Life Begins*, will recognise.

More significantly, such affairs can provide both the opportunity and the means for collusion and fraud. Risks are magnified because such an affair, involving a senior member of a company, may have a chilling effect on other staff. There is a danger that the junior member of staff may be seen as 'untouchable' by other staff. Apparently robust internal controls may as a consequence be rendered ineffectual. There is little transparency if key decisions are perceived to be taken in the bedroom rather than the boardroom.

How does Boeing's rigour compare with the UK? Certainly corporate governance committees have waxed lyrical on the need for 'integrity'. Cadbury (1992) went as far as to make it one of three code principles, together with openness and accountability. Turnbull (1999) stressed that boards should consider whether senior management demonstrated the necessary commitment to integrity, through actions as well as policies. Higgs (2003) stated that effective chairmen and NEDs should uphold the highest standards of integrity and probity. Tyson (2003) continued this pattern stressing that there was no doubt that



integrity and high ethical standards were essential NED qualities, but that others were needed as well.

Telling whoppers

Helpfully, Tyson quoted Aviva chairman Pehr Gyllenhammar that there should be 'no crooks, no cronies, no cowards'. But regrettably, the self-same committees have, overall, done little to inform us as to what does or does not constitute integrity. It is clear that fraud is out. So too 'other improprieties' (Cadbury). But what does this mean? Using the cutlery in the wrong order at an Institute of Directors' dinner? Or what? Telling whoppers might be out, but what of little fibs? Is it OK if you only tell whoppers outside office hours?

Of course, in a sense, the whole framework of the Combined Code is about ensuring directors' integrity. Yet there are clear weaknesses, such as in the independence criteria.

Since, as Cadbury acknowledged, 'the integrity of [financial] reports depends on the integrity of those who prepare and present them', then it's time we were told what integrity means: an urgent task, perhaps, for the forthcoming Financial Reporting Council review.