

**IP: BUSINESS ETHICS**

**Boeing and the case of Harry Stonecipher**

On 7 March, 2005, the Boeing corporation (BA) released this statement on its website:

Boeing [NYSE: BA] announced today that its Board of Directors asked for and received the resignation of President and CEO Harry Stonecipher on Sunday, March 6. Concurrently, the Board has appointed CFO [James A. Bell](#), 56, as president and CEO on an interim basis, with Board Chairman Lew Platt assuming an expanded role in his capacity as non-executive chairman. Stonecipher will also leave the company's Board; all changes are effective immediately.

The Board actions were taken following an investigation by internal and external legal counsel of the facts and circumstances surrounding a personal relationship between Stonecipher and a female executive of the company who did not report directly to him. The Board determined that his actions were inconsistent with Boeing's Code of Conduct.

"The Board concluded that the facts reflected poorly on Harry's judgment and would impair his ability to lead the company," said Platt.

"The resignation was in no way related to the company's operational performance or financial condition, both of which remain strong. However, the CEO must set the standard for unimpeachable professional and personal behavior, and the Board determined that this was the right and necessary decision under the circumstances," he said.

An anonymous female whistleblower had reported the relationship to Lew Platt eleven days before this announcement was made. She had access to sexually explicit emails between Chicago-based Stonecipher, 68, and Boeing vice-president in Washington, Debra Peabody, 47. Peabody resigned from Boeing two weeks after Stonecipher. Peabody was divorced and Stonecipher had lived apart from his wife of 50 years for some time. Peabody did not report directly to Stonecipher and he had not exercised his influence to advance her career. The affair started at a Boeing executive retreat in January of 2005 and lasted a few weeks.

Boeing had suffered from some highly visible ethical failures when it recalled Stonecipher from retirement to steer the company into calmer waters. In 2003, Boeing was found to have used proprietary materials from competitor Lockheed Martin in seeking a rocket-launching contract. In December by its CEO, Philip Condit, resigned amid a scandal over the illegal employment of a former Air Force procurement officer, for which Boeing CFO Michael Sears received a four-months prison sentence.

Stonecipher had been the corporation's chief operating officer until 2001, when he had retired.

Philip Finnegan, director of corporate analysis at the Teal Group, was reported by the *Washington Post* (8 March, 2005) as saying of Stonecipher: "He did a good job of working to restore Boeing's reputation and refurbishing ethical standards at the company, and that's what Boeing needed." The *Post* also quoted Charles M. Elson, director of the corporate governance program at the University of Delaware, as stating, "It's not the relationship, it's the judgment that got you into the relationship that can get you into trouble".

According to Platt, what brought Stonecipher down was his own insistence on zero tolerance in ethics issues.

"Harry was really the staunchest supporter of the code of conduct. He drew a very bright line for all employees, let everyone know that even minor violations would not be tolerated. And when one does that, you have to live by that standard."

*Finfacts Business News* 12 July 2005,

[http://www.finfacts.com/irelandbusinessnews/publish/article\\_1000803.shtml](http://www.finfacts.com/irelandbusinessnews/publish/article_1000803.shtml)

So the issue that caused Stonecipher's dismissal seems to have been (a) his poor judgment; and (b) his inconsistency with respect to the code of conduct — one law for everybody except the CEO and another for him. On the matter of judgment, however, Stonecipher seems to have been doing a good job of bringing the corporation into recovery. On the matter of the code, was this a hanging offence? A number of on-line contributors to the *Washington Post* thought not:

Chapel Hill, N.C.: So what have we come to in this day and age? Policing personal behavior as a reason to fire a very competent person? It said clearly that the lady in question did not work for the CEO, did not get a promotion and worked in a different department. The relationship was consensual.

I see no reason for dismissal. Do you?

Dr. Ken Siegel: Yes, absolutely. He was brought in specifically to clean up Boeing after a series of scandals. That's why he was brought in specifically and to engage in an extramarital affair with anyone in the organization suggests an abuse of power that's unethical. If he wants to have an affair, that's his business, but using his position to facilitate that always causes one to question the voluntary nature of his partner's choice.

Alexandria, Va.: Where do you get off accusing one of your questioners of unnecessarily taking the moral high ground, when you accuse Mr. Stonecipher of "using his position to facilitate the relationship" when there is no evidence he did so? Indeed, in all your remarks so far you have failed to clarify what if any substantive reason there was to fire the man for his private activities. You allude to the fact he was brought in to clean up after scandals, but those scandals had to

do with bribing government officials and industrial espionage. Do you have some basis to relate the two very different types of behavior? Can you in clear language explain why private conduct which, whatever affected spouses might think, had no impact on the company (that's the case we are dealing with) is a basis to fire the man?

Dr. Ken Siegel: His conduct was not a private affair. It was a public affair that was publicly visible. Number two, he was clearly in violation of his own company's code of conduct to which he would have held any of his executives. And number three, anytime the issues of sex and power intertwine, the concept of free choice or consensual choice is questioned.

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Washington, D.C.: In your response to a question from North Carolina, you say that his ethical problem was "Using his position to facilitate the affair."

Do you know something more about this story than was published? Everything I read made it very clear that it was consensual. What leads you to assume that he used his position to "facilitate" the affair? I agree that mixing sex and power is a dangerous activity, but I think it's unfair to assume that's what was happening. How do we know power was involved? Couldn't it be the case that they were simply just attracted to each other?

Dr. Ken Siegel: Well, they were obviously attracted to each other. Secondly, he's a CEO. There are no other peer-level CEOs, so she is by definition subordinate — not a subordinate, but subordinate. Thus, power is clearly involved.

Steven Pearlstein of the *Washington Post* shared the scepticism of Dr Siegel's interlocutors, but thinks that "given the prevailing political and legal environment in which the company finds itself, and the prevailing business culture in the United States" the board was probably justified in firing Stonecipher. That doesn't mean that that culture should be accepted. Pearlstein believes that Boeing was really worried about the whistleblower leaking the sexually explicit emails sent over the corporation's intranet. In other words, this was primarily a strategic manoeuvre.

But has this case anything to do with business ethics? Pearlstein is worried about a culture that dresses up decisions based on culture in ethical garments. He writes:

The first bit of silliness concerns our too-easy embrace of "zero-tolerance" policies for all ethical violations. Once Stonecipher had enunciated such a policy for all Boeing employees, of course it made it impossible for the board to make an exception in the case of the chief executive. But where and when was it decided that companies have to mete out the equivalent of capital punishment for every ethical crime from bribery and fraud to sending X-rated e-mails? Whatever

happened to deciding these things on a case-by-case basis and letting the punishment fit the crime?

Then there is the dubious argument that while Stonecipher's affair was not, per se, a firing offense, it called into question his judgment. As a matter of empirical evidence, there doesn't seem to be much connection between business judgment and the judgment people bring to affairs of the heart. Any number of businesses, after all, have been run into the ground by devoted family men.

What's most dangerous, however, is the implicit acknowledgment by the board that it is too risky for a company doing business with the government to be run by someone whose personal life might offend the ayatollahs of the religious right. You would have thought we might have learned a lesson from the disastrous campaign to impeach a president on morals charges, only to ensnare a speaker-designate of the House. Instead, this same puritan standard now seems to have been extended to the corporate sector.

So did Boeing act correctly? What else might it have done? Pearlstein protests about the culture that brought about Stonecipher's demise but offers no alternative. Siegel seems to equate ethical issues with differences in power. The Boeing board seems to think that if Stonecipher had been less rigorous in his support of the company's code, they would have had more room to move.

Do we have an ethical issue here? What is it? Where should the boundaries to ethical concerns be drawn in corporate life? Is it the case that relationships between unequals always raise ethical issues for business (and other organisations)? How should matters like Stonecipher's be handled at board level? How would you interpret the usefulness of whistleblowing in the light of this case?

— Damian Grace 2006

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