

Horrible Bosses

More misbehaving American executives get the boot

Boards are scrutinising not only how bosses treat people but how they talk

THEY are falling like dominoes. Executives caught behaving badly might once have been slapped on the wrist. Today they are shown the door. On July 19th Paramount Television fired its president, Amy Powell, over reports of insensitive comments about race (she strongly denies these and is hiring lawyers). A week earlier saw the forced resignation of John Schnatter (pictured), founder of Papa John's, a pizza chain, for using the "n-word" during a training session. In June, Jonathan Friedland of Netflix got sacked for using the same word in front of colleagues at least twice (he was, of all things, chief communications officer).

These are only the latest bigwigs to go in a line of departures linked to "personal misconduct", a term that covers a multitude of sins. The dismissal of Harvey Weinstein last October from the Weinstein Company, a studio, over allegations of sexual assault, has sparked a string of sackings related to sexual misconduct, including the dismissal of 12 executives at Nike, several senior men in entertainment and at least one executive at Bank of America (who is now suing the firm.) This year the trigger for action seems to be moving into greyer areas, such as obnoxious behaviour and insensitive language. "Boards are now holding executives to higher standards, looking not just at how they treat people but also how they talk to and about them," says Pam Jeffords of Mercer, a consultancy.

Some firms have kept details surrounding departures close to their chests. On July 3rd Barnes & Noble, a bookseller, wrote that its boss had been fired "for violations of the company's policies". Last week Texas Instruments, a technology firm, said its boss resigned over violations "related to personal behaviour that is not consistent with our ethics and core values".

The thread connecting these incidents is that all are about perceptions of executive integrity, and by extension, trust. Since trust violations are particularly hard for firms to overcome, often more so than incompetence, says Peter Kim of the University of Southern California, firms may believe that firing an errant executive can be the safest, most pragmatic course of action.

Executives were never all angels. What has changed is that boards are now far less willing to overlook bad behaviour for the sake of superior performance, says Brian Tayan of Stanford University. Although the Weinstein scandal certainly accelerated this shift, it preceded him. A 2017 report from PwC, a professional-services firm, found that the share of chief-executive dismissals that were due to ethical lapses increased between 2007-11 and 2012-2016, not because bosses were behaving worse but because they were held more accountable.

Boards seem to be acting thus for two reasons. First, to protect employees and create a safe and inclusive work environment (oh, and not get sued). Second, to protect their brands' reputations. A 2016 study from researchers at Stanford showed that the fallout from chief executives behaving badly, but not unlawfully, was large and lasting. On average each of the 38 incidents studied garnered 250 news stories, with media attention lasting 4.9 years. Shares usually suffered, though not always. And in a third of cases firms faced

further damage, including loss of major clients, federal investigations, shareholder lawsuits or proxy battles.

Not all bosses leave quietly. Shareholders of Papa John's are learning this lesson the hard way. Mr Schnatter's recent comment that leaving was a mistake has fed rumours that he may try to force his way back in—he owns nearly a third of the company. Shares of the pizza chain fell by 10% after the board announced that it would take the unusual step of issuing a “poison pill” in order to block him from taking a bigger stake.

Should an executive's words be judged as harshly as their actions? From the perspective of protecting the brand, as well as discouraging a toxic work environment, they probably should. The power of social media to turn a whispered comment into a Twitterstorm, and the fact that everyone now has a mobile recording device, demands a decisive response.

But boards and the media also risk rushing to judgment and painting miscreants with too broad a brush. A past consensual relationship with a subordinate, the reason for the departure of Intel's boss in June, does not fall into the same category as sexual assault. An insensitive remark made long ago or as a one-off is not the same as one made as the face of the firm or as part of a consistent pattern. Disney's firing of James Gunn, a director, last week over tweets from a decade ago, before he was hired and for which he has apologised, seems to be one instance in which such distinctions have been papered over. And plenty of companies benefit from environments where people can speak openly and brainstorm out loud.

Once the fallen dominos have been counted, some firms may turn out to have been too gung-ho in responding to the “Weinstein effect”. Many, perhaps most, exits will be justified. But all?

This article appeared in the Business section of the print edition under the headline "Horrible bosses"