



HBR CASE STUDY

Should Cheryl
initiate an
investigation at her
new firm?

The CEO's Private Investigation

by Joseph Finder

If there ever were a time when a chief executive should commission some quiet snooping on her colleagues, this might be it.

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If Mussolini had been the CEO of a major American corporation, Cheryl Tobin thought, his office wouldn't have been this big.

She stood in the doorway of her new work space, on the 33rd floor of the Hammond Tower in downtown Los Angeles, and took a deep breath. Seven o'clock on her first morning as CEO of Hammond Aerospace. Briefcase in one hand, Starbucks nonfat venti latte in the other.

Go for it, kiddo, she told herself as she exhaled, then resolutely strode over the threshold and across the antique, jewel-toned Serapi rug. She remembered the moment, a couple of weeks ago, when the chairman of the board had solemnly ushered her in here. He'd stood in awestruck silence, presumably to impress her with the majesty and grandeur of the job they were courting her for.

She'd been impressed, all right. But also secretly appalled. It was obscene: easily four

times the size of her office at Boeing, where she'd run the largest division. This wasn't exactly her style. A peacock's plumage might impress the peahens, she liked to say, but it was also a flashing neon all-you-can-eat sign for predators.

Floor-to-ceiling windows on two sides, with dazzling panoramic views of Wilshire Boulevard. A private terrace where you could entertain visiting dignitaries. Even a working fireplace with a slate hearth—what was *that* all about?

It was all about the colossal ego of its former occupant, of course. The legendary James Rawlings, the globe-trotting CEO-statesman who'd single-handedly built a minor producer of airplane windshields into one of the world's leading aerospace companies. Jim Rawlings had been a man of immense charisma and iron will, a hard-charging salesman who'd dominated Hammond Aerospace until the

HBR's cases, which are fictional, present common managerial dilemmas.

moment, one month ago, when he'd dropped dead from an aneurysm on the sixth hole at Pebble Beach. Right in front of three Japan Airlines execs with whom he'd been negotiating a \$5 billion order for thirty H-880 SkyCruisers, the company's new wide-body passenger jet.

Half an hour after they'd carried him away on a gurney, the shaken Japanese executives signed on the dotted line.

Even in death, he seemed so present. His grandiose office had been preserved exactly as he'd left it, a shrine to a cult of personality. They still hadn't taken down the photos on his ego wall: skiing with Prince Charles in Klosters, sailing with Gianni Agnelli in the Adriatic, schmoozing with King Abdullah at the royal palace in Riyadh. The place still reeked of cigar smoke.

She had some serious redecorating to do. For starters, the humidors had to go.

The vast black marble slab of a desk was uncluttered by a single object. Where is the telephone? she wondered. Didn't the guy use a phone?

She set her briefcase on the floor, then placed the almost-empty paper cup on the gleaming surface of the desk. It looked almost ironic there, like some Damien Hirst installation.

Now she stood watching the early morning traffic, the Matchbox cars barely visible through the smog. She missed Chicago, didn't much care for Los Angeles, but she could get used to it. Good sushi here, she'd heard.

What the hell have I gotten myself into? Cheryl wondered. No doubt, leading Hammond Aerospace was the opportunity of a lifetime. But at the same time, she was acutely aware that not a few people in this building wouldn't mind terribly if she tripped and fell off her private terrace and took a header onto the asphalt of Wilshire Boulevard, 33 stories down. Not least a guy named Hank Bodine, the head of Hammond's commercial airplane division and the internal candidate for the job she'd just secured. Everyone here had thought he was a shoo-in, himself included.

"Good morning, Ms. Tobin. You're in early."

Startled, Cheryl turned around. Her new executive administrative assistant, Jackie Terrell, stood in the doorway.

She was a tall, regal African-American

woman in her early fifties, wearing an elegant lavender suit and matching pumps. When the two women had first met a few days ago, Jackie had seemed a bit stiff. Excessively formal, maybe. But she'd been Jim Rawlings's assistant for 18 years, which meant she'd be invaluable.

"Oh, good morning, Jackie. Yeah, I like to get in before the phone starts ringing. And please—I'm Cheryl."

Jackie smiled with prim cordiality. "Jim always arrived at nine on the dot, and I always get here by eight. But I'll make sure I'm in by seven from now on."

"Oh, don't be silly. Eight is fine."

Jackie nodded. "Please let me know what I can do for you."

For one thing, you can drop the Mrs. Danvers act, Cheryl thought. "I'd like to call a meeting of my executive team this afternoon."

"I'll send out the notifications." Jackie hesitated an instant, then said: "They'll be—well, traditionally, executive team meetings are held on Tuesday mornings, Ms. Tobin, but—"

"Tomorrow's fine," Cheryl said. There'd be plenty of opportunities to break some china before the week was out.

"May I get you a cappuccino? Jim always liked a cappuccino, first thing."

"No thanks." She indicated the paper cup defiling Jim Rawlings's desk. "I've had my hit of caffeine for the day. Too much makes me jittery."

"I see. Well, please let me know if there's anything I can get you."

Cheryl thought for a long moment and then said, "Actually, Jackie, there is something. Some information."

"Of course. What would you like to know?"

"Let's sit down for a moment." Cheryl walked over to the conference area and sat in a high-back black leather chair. Jackie perched at one end of a long black Chesterfield sofa and took out a pad.

Note to self: Get rid of the damned men's club furniture, Cheryl thought.

"Jackie," she began delicately, "when I was at Boeing, I heard certain rumors...about Hammond."

"Rumors?" Jackie cocked her head.

"Of course, you never know what's true and what's not when it involves a competitor. But what I often heard was that the reason Jim's sales team was so successful at landing foreign

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"I won't stand for any coloring outside the lines. I want Hammond's reputation to be spotless."

contracts was—well, to be blunt, that they weren't reluctant to give certain incentives."

"I'm not following you, Ms. Tobin."

"Off-the-book deal-sweeteners. Bribes, not to put too fine a point on it. There were whispers that Hammond kept a secret slush fund for payoffs to various foreign officials."

Jackie shook her head. "That sounds like watercooler gossip to me."

"Perhaps. But sometimes there's truth in gossip."

"People always love to trash the competition. Sour grapes, I'm sure."

"No doubt that's all it is. But now that I'm CEO, I need to be absolutely certain."

Jackie shifted, visibly uncomfortable. "Anyway, I was hardly in a position to know anything."

"You know what they say about you," Cheryl said lightly. "That you know where all the bodies are buried, right?"

Jackie seemed to be studying the rug. Cheryl had the distinct impression that her new assistant was holding out on her.

"Well," Cheryl said abruptly, getting to her feet. "Forgive me if I put you in a difficult position." She returned to the big black sarcophagus of a desk and, without turning around, added, "Given your loyalty to Jim."

"No—" Jackie said. "That's not it at all."

"You see, if the allegations are baseless, no one will be more relieved than I," Cheryl said softly. "But I want everyone to know that I won't stand for any coloring outside the lines. I want Hammond's reputation to be spotless."

A few seconds later, Jackie said in a small voice: "There might have been something."

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Cheryl's new assistant spoke falteringly. "I've heard the rumors, too, of course. But I always ignored them. Until one day I found a folder on Jim's desk, and I picked it up to file it away." She added hastily: "I handled all his personal papers, even the most confidential. He knew he could trust me to be absolutely discreet. That's why I was so surprised when he told me to put the file down. He was quite...short with me. He said it was personal. Not like him at all."

"What was it?"

"Banking documents, it looked like. I mean, I had to look inside to know where to file it."

"Of course you did, Jackie," Cheryl said reassuringly.

"I saw some wire-transfer instruction forms. Sending millions of dollars from one of Hammond's accounts to a bank in Grand Cayman. I remember wondering about that because I didn't think we did any business there."

"What happened to that file?"

Jackie's eyes brimmed with tears. "I never saw it again."

After a few seconds of silence, Cheryl said, "Thank you, Jackie. I know it mustn't have been easy for you to tell me."

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Hank Bodine was a big, bluff man of around 60, with a shock of silver hair, heavy black brows, and a large square jaw. He wore a perfectly tailored gray suit and a silver tie. He looked like a CEO. Cheryl had done her due diligence on him, though, and had heard he was a swaggering, foul-mouthed martinet given to explosive tirades. She wondered why the board had passed him over for the CEO job. Might it be his temperament? Or something else?

He looked around the office as he entered. "Haven't changed a thing, I see," he said in a booming voice.

"It's only my first day," Cheryl said. "In a month, you won't recognize the place."

She led him over to the men's club seating area, where they chatted aimlessly for a few minutes. Hank made little effort to conceal his hostility. "Well," he said, "I can't wait to hear what sort of changes you've got in mind."

"Who said anything about changes?" Cheryl said blandly.

Hank flashed his unnaturally white teeth, but the smile did not reach his eyes. "The board wouldn't have brought in an outsider to keep things the same."

"You know, I never like to mess with success. I mean, your order book for the SkyCruiser is over a hundred billion dollars, isn't that right?"

Hank nodded, waiting.

"I've got to tell you," she went on, "it's a lot better to be working with you than against you. Your division sure grabbed a lot of business away from Boeing in the past few years."

A hearty guffaw. "Hey, maybe we're selling a better plane."

Cheryl shrugged. "I hope that's it."

"Plus, I've got a crack sales force."

"So I hear."

"We're the underdog. We have to get up earlier. Work longer. Fight harder."

"News of an investigation into possibly illegal conduct would inflict serious harm on the company."

"As long as everything's on the up-and-up, you have my unqualified support. And gratitude, for that matter."

Hank's smile faded. "What's that supposed to mean?"

"We're both grown-ups, Hank. I think you know what I'm talking about."

"I'm not sure I do."

There was a beat of silence. "I just want to make sure," Cheryl said quietly, "that no laws have been violated. I'm talking about the Foreign Corrupt Practices Act."

Hank's eyes glittered coldly. "Is that an accusation?"

"Simply a statement," she said. "I won't tolerate any bribery, any payoffs to lock in deals. I want your personal assurance that nothing of the sort is going on at Hammond. To your knowledge."

He jutted his jaw, looked away. "I'm not going to even dignify that—"

"Hank, I want you to know that I'm considering launching an internal investigation."

"That some kind of threat?"

"Not at all. Call it a heads-up."

"You can't be serious."

"Deadly. Hank, let me remind you: I was at Boeing when someone tried a little too hard to land a big, juicy Pentagon contract—by offering a job to the woman in charge of air force acquisitions. Remember that? A couple of years ago?"

"Yeah," Hank said impatiently.

"Our CFO went to prison. Our CEO was forced to resign. Boeing had to pay millions of dollars in penalties. If it weren't for a great legal team, we'd have faced criminal charges, too. We lost probably billions in potential business. So I'm going to do my damndest to make sure nothing's going on here."

Hank leaned forward, hunched his shoulders. "And what exactly do you think that's going to accomplish? You have any idea what's gonna happen to our share price when the word gets out that the new CEO's off on some witch hunt, looking into bribery or slush funds or whatever the hell?"

I never said anything about a slush fund, she thought. "But if it's not true—"

"Doesn't make a damned bit of difference if it's true or not. We'll lose contracts left and right. Soon as there's a drop of blood in the water, the sharks are gonna circle, believe you me."

She watched him in silence.

"You're barely here an hour, and already you're trying to tear the place apart," Hank said in a low, insinuating voice. "I've got news for you. You don't work for Boeing anymore."

Only later did Cheryl realize that Hank Bodine hadn't actually denied anything.

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Hammond's general counsel was a trim, nervous man named Geoffrey Latimer. He was around 50, with graying light brown hair perfectly parted on one side and Brylcreemed into place. He shook Cheryl's hand, his grip firm and dry. His fingernails, she noticed, were bitten.

She'd dropped by his office unannounced, hoping to get to him before the rumor mill did. His office was a fraction of the size of hers. Neat stacks of papers and binders covered nearly every surface. He, too, had an ego wall of photographs of himself with various VIPs. This seemed to be standard issue on the 33rd floor.

Geoffrey listened gravely, his head bowed, like a priest hearing confession. When she finished, he looked up.

"I assume you're not talking about having me spearhead an internal investigation."

She shook her head. "It would have to be done by an outside law firm. It's the only way."

"I agree."

"Good."

"But I think it would be a mistake," Geoffrey said.

"How come?"

He leaned back in his chair and tented his hands. His brow was deeply furrowed. "To begin with, news of an investigation into possibly illegal conduct would inflict serious harm on the company."

Yes, she thought. Hank Bodine's argument. "But not if it's contained," she said.

"If you mean trying to keep the *fact* of such an inquiry a secret, I'm afraid that's just not realistic. Good Lord, there'd be forensic document examiners combing through years of files and archived e-mails, computer experts talking to our IT people...." He shuddered. "We're talking front page of the *Wall Street Journal*."

Cheryl folded her arms, bit her lower lip. "But at the very least, don't you think I pretty much have to inform the board about my suspicions?"

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Now he leaned forward in his chair and began toying with a paperweight. "Here's the thing, Cheryl. Once you do that, you escalate things to an entirely new level. The whole matter will spin completely out of control."

"How so?"

"The regulatory environment out there has gotten really brutal in the past couple of years. The courts have started to hold individual directors personally liable for any corporate malfeasance they know about and don't act on. That could mean potentially millions of dollars in legal fees alone—for each director. And all for what might turn out to be nothing more than a wild goose chase."

"You're kidding me." She tried to swallow, but her mouth had gone dry.

"Unfortunately, no. So look at it from their standpoint—you tell them about this suspicion of yours, and they'll have no choice but to take immediate and serious action."

"Which might not be such a bad thing, correct?"

He closed his eyes, gave a long, tremulous sigh. "Look, Cheryl. What they'll almost certainly do is take control of the company out of your hands. They'll feel as if they have no choice. You'll be the CEO of Hammond in name only—you'll have no power."

She watched him, didn't know what to say.

"Cheryl, if you have some sort of concrete evidence of corruption, then a probe would be not only responsible but imperative. Yet if you're going on nothing more than a hunch... oh, dear. The fact that there are stories out there about alligators in the sewers doesn't justify sending inspectors down the manholes. Trouble is, as soon as you repeat these tall tales, everyone's got to act as if they're true." He paused, gave the paperweight a final little shove. "And something else. Please forgive my bluntness."

"Go ahead," she said dully.

"A lot of people here are going to consider this just some clumsy attempt on the part of the new CEO to discredit her very popular predecessor. To blacken his name." He winced. "I'm not saying that's your intent, of course—far from it. But you'll start losing senior people. You'll become a pariah, Cheryl. And you have to ask yourself: Is it really what's best for the company?"

Her head had begun to throb. She thanked him and walked slowly out of his office, and

on the way a photograph caught her eye.

Geoffrey Latimer with Hank Bodine and Jim Rawlings. Aboard Rawlings's famous 400-foot, German-built yacht, their arms around each other. Like three frat brothers.

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"Is everything all right?" Jackie asked.

Cheryl, surprised by the tenderness in Jackie's voice, attempted a smile as she passed her assistant's desk. She needed to be alone, to think. Late morning light flooded her office, making her headache worse.

Her first day as a CEO, and for the first time in years she felt almost paralyzed by indecision. She'd always been able to draw on an inner core of strength, to get through the hard times, to make the tough decisions. She'd once overheard a couple of guys at Boeing refer to her as Ice Queen, and no doubt people had said worse. She didn't particularly care. But her detractors, both men and women, wrongly assumed that beneath her sometimes flinty exterior was even more flint.

If only that were true.

She sat behind her desk and finally located the damned telephone. It was concealed in a desk drawer. Who knew what else Jim Rawlings was concealing? She picked up the handset, listened to the dial tone for a few seconds, then put it down.

Weren't quarterly filings due in a couple of weeks? The Sarbanes-Oxley Act required her to approve them, to certify them as "true, correct, and complete." But what if she signed a financial statement that she had reason to believe might be inaccurate—and then it turned out that there really was some kind of slush fund? Wouldn't she herself be in legal jeopardy?

Whom should she ask about this? Geoffrey Latimer wasn't her personal lawyer, after all. And after seeing that picture of him and Hank Bodine on Jim Rawlings's yacht, she had to wonder whether his real motivation was to protect his buddies.

But she couldn't just do nothing. Not anymore. She'd already started asking questions, and she couldn't exactly unring this bell.

Picking up the phone again, she dialed a Washington, DC, number: the direct line of a man named Hamilton Wender, a senior partner at the high-powered law firm Craigie Blythe. She'd gotten to know Tony, as he was called, when he did some brilliant defense

work for Boeing. What a nightmare that was.

And this could be worse.

"Tony," she said, trying to control the anxiety in her voice. "It's Cheryl Tobin."

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