



**Tuesday, October 2, 2012**

**11:00 AM - 12:30 PM**

## **1005 – How to Survive a C-Suite Scandal**

**Dave Curran**

*CEO & Chief Legal Officer*  
Risk Readiness Corp.

**Nancy Delogu**

*Office Managing Shareholder*  
Littler Mendelson PC

**Harry Jones**

*Shareholder*  
Littler Mendelson, P.C.

**Jonathan Mann**

*Vice President & General Counsel*  
Advantage Resourcing International

## Faculty Biographies

### **Dave Curran**

*CEO & Chief Legal Officer*  
Risk Readiness Corp.

### **Nancy Delogu**

*Office Managing Shareholder*  
Littler Mendelson PC

### **Harry Jones**

Harry Jones is a shareholder in the Dallas office of Littler Mendelson P.C. He provides employment law counsel to regional, national, and multi-national employers in the field of trade secret protection and unfair competition; discrimination, retaliation and whistleblowing; ethical codes; and wage-and-hour issues. He also leads complex investigations and response strategies for public and private employers, particularly when media coverage is intensely negative. His clients are concentrated in the construction, food, and financial services industries.

Prior to joining Littler, Mr. Jones founded a firm in Dallas that specialized in high-profile investigations to protect institutional value.

He serves on the board of advisors to the world-renowned Cooper Aerobics Center in Dallas, and does pro bono work for the Jubilee Park Center and the nonPareil Institute for autism.

Mr. Jones graduated from Abilene Christian University with a BA in history, and received his JD from Texas Tech University School of Law.

### **Jonathan Mann**

*Vice President & General Counsel*  
Advantage Resourcing International

# Handling a Scandal

## Protecting Institutional Values When Executives Behave (Very) Badly



presented by

**Harry Jones, Esq.**  
**Little Mendelson, P.C.**  
**(214) 880-8111**  
**HDJones@littler.com**

**Board Certified in Labor &  
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**2001 Ross Avenue**  
**Suite 1500, Lock Box 116**  
**Dallas, TX 75201-2931**

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# What did the IMF Do?

NATION

Tuesday, June 7, 2011

7A

NEW YORK

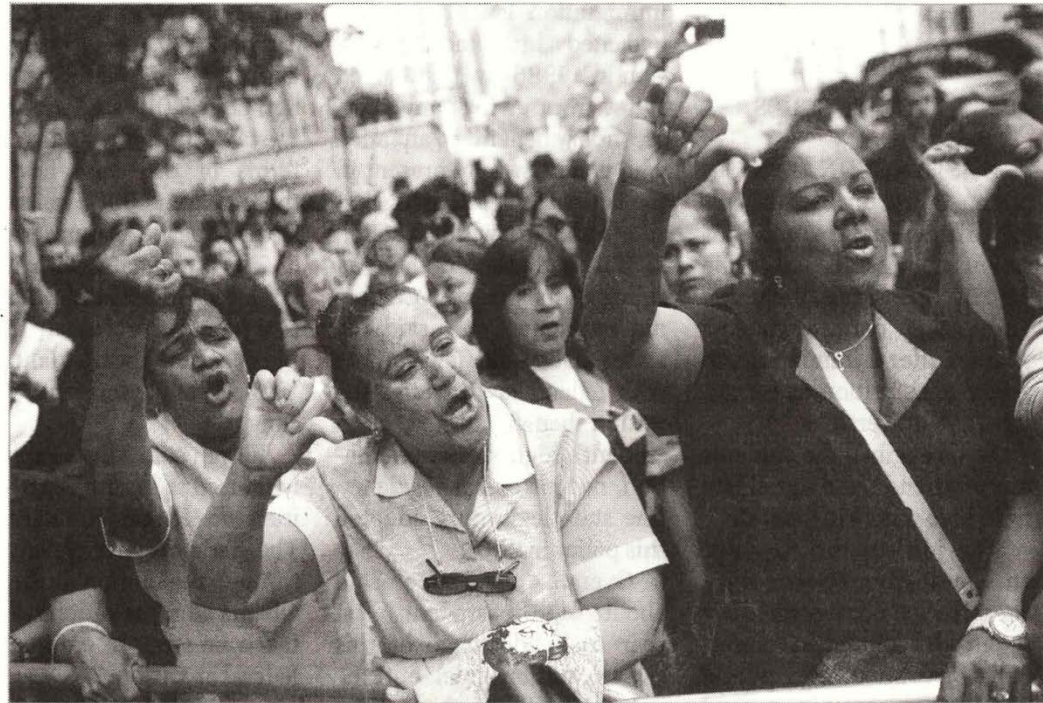
## Hotel workers jeer IMF leader

Strauss-Kahn pleads not guilty; maid's lawyers allege 'smear'

NEW YORK — Dominique Strauss-Kahn formally asserted his innocence Monday to charges he tried to rape a hotel maid, but the drama unfolded outside the Manhattan courtroom as protesters jeered the former International Monetary Fund leader and lawyers for the housekeeper said she was eager to testify despite a "smear campaign" against her.

Strauss-Kahn's attorneys offered a rival account of the May 14 encounter at his \$3,000-a-night Manhattan hotel suite, hinting again that the French diplomat might argue the encounter was consensual.

By the end of the case, "it will be clear that there was no



Michael Appleton/The New York Times

**Hotel workers chanted** "shame on you" as IMF chief Dominique Strauss-Kahn left Manhattan Criminal Court in New York on Monday. Strauss-Kahn pleaded not guilty to charges that he sexually assaulted a hotel housekeeper.

said Aissata Bocum, a Rama- forced her to perform oral sex

# *IMF Doesn't Like Hotel Workers?*

- Represents 185 nations
- Liberalizes economies
- Stabilizes global finance
- Studies macroeconomics
- Creates rescue packages
- Assists troubled nations



# *Heavyweight Institution*

- **Conceived by UN in 1944; HQ in DC**
- **Staff of 2,490 from 143 countries**
- **\$254 billion in loans committed**
- **\$550B in member contributions since 2007**
- **US contributed \$68B and \$100B line of credit**



# *Why does IMF have a Scandal?*

- IMF didn't assault anyone
- IMF is force for progress
- IMF isn't only one man



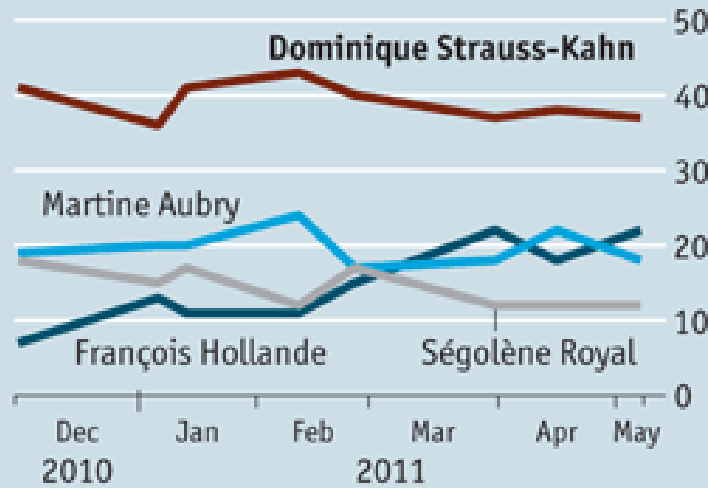
# *IMF and DSK*

- **Dominique Strauss-Kahn**
- **Consensus pick for Managing Director**
- **French Socialist Party nominee for 2012**
- **Married to TV personality Anne Sinclair**

# Favored to Replace Sarkozy as Leader of France

## In his shadow

Whom would you prefer to be chosen as the Socialist Party's candidate for the presidential election in 2012? %




Source: Ifop poll of left-wing voters

# *DSK Had His Assets*



- **Widely praised**
- **“Sagacious” leader**
- **Effective**
- **Greeks + Germans OK!**
- **G20 to give \$500B+**

# *Disgrace and Questions*

- 
- **DSK resigned on May 18, 2011**
  - **Accused of raping Muslim-African immigrant**
  - **\$3,000/night hotel suite**
  - **Current defense theories: consent, lying maid**



# *Tarnished*

- **Every news story on DSK mentions IMF**
- **Story lasts: new angles tarnish IMF brand**
- **IMF website published DSK's denial**
- **“Scandal at the IMF” (FOX News 5/24/11)**

# *New Angles: Waste and Greed*

- **\$250,000 lump sum severance**
- **Pension?**
- **\$75,000/year allowance**
- **No “justification” for expenses**
- **\$500,000/year salary**
- **Married to heiress**



# *DSK Hurts IMF*

**Even if DSK wins criminal case...**

- **IMF faces questions at critical time**
- **IMF “brand” badly damaged**
- **His victory won’t feature IMF**

# Riots in Greece

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Protesters clash with riot police in Athens on Tuesday as lawmakers debated spending cuts and tax increases promised to international creditors.

pean countries and the IMF lent Greece €110 billion last year to keep it from defaulting. But still facing prohibitively high borrowing costs on international markets, Greece is now seeking about €100

**The IMF, architect of the Greek austerity program, is the object of much of the protesters' ire.**

billion in fresh aid. The European Union and the IMF have demanded the country pass the austerity plan, putting in place a related €50 billion privatization program be-

fore releasing existing funds to the country or agreeing to a new aid package.

Greece faces a cash crunch in mid-July and is counting on euro-zone finance ministers to release the next tranche of its existing loan before then. The Parliament vote is timed to precede a special meeting of the ministers Sunday, when they will decide whether to release the disbursement.

In opposition to the measures, Greece's two major umbrella unions—private-sector GSEE and public-sector ADEDY—held the first day of a two-day general strike Tuesday, the second such strike called this month, and the fourth this year.

The strike disrupted public and private services around the coun-

try, shut central-government ministries, schools and local government offices; and affected rail, air and ferry services. Schools and universities also were closed as a result of the strike, while hospitals and state-owned companies operated with skeleton staffs. Some bank employees, journalists and pharmacists also staged their own walkouts.

"The hundreds of thousands of strikers, the citizens that have taken to the streets around the country, are boiling over with rage and indignation over the new measures," Yannis Panagopoulos, president of the private-sector union, said. "These polices are not only unjust, but are also a dead end and ineffective."

Although public-sector partici-

pation in the strike was high, a mass rally organized by the unions Tuesday drew only a relatively small turnout, with police estimating that about 20,000 people took part.

Marinos Malatatis, an unemployed 38-year-old elevator technician who was part of the union protest, said many Greeks were afraid to leave their jobs and join in the demonstrations.

"The turnout is low, and not many people have come," he said. "But with unemployment high—it's now around 16%—a lot of people are afraid of losing their jobs and are trying just to keep their heads down."

—Luca Di Leo, Brendan Conway and Matt Phillips contributed to this article.

# *Fallout for IMF?*

## American taxpayers not in mood for this:

- French socialist
- Making more than Obama
- Living in NY
- Heading an international organization
- Funded disproportionately by America
- Getting quarter million dollars severance
- And a pension
- While awaiting trial for rape
- Out on bail in the Upper East Side



# *Losses Mount*

- Congressional hearings on funding scheduled
- American good will = paramount IMF interest

# *IMF Can't Hide From The Debate*

- **US borrows from China**
- **To lend to IMF**
- **For Pakistan to borrow**
- **Election issue?**
- **DSK put IMF in firing line**



# *IMF Package Negotiations*

**Rescue packages delicately poised for:**

- Greece
- Portugal
- Ireland
- Pakistan
- Egypt



# *Managing in a Storm*

- **\$2.2B Irish rescue sent 2 days after DSK arrested**
- **No-name acting MD had to take over**
- **Greek deal in the balance--DSK was point man**
- **Meetings canceled (“I’m @ Rikers Island”)**
- **\$78B Portugal package in the works**

# Warnings?

- Interview by *Liberation*
- DSK admitted he had issues:  
“money, women, being Jewish”



# *The Great Seducer*

**He is:**

**“too insistent, often brushing close to harassment. A trait known to the media, but about which nobody speaks.”**

**Jean Quatremer, *Liberation***



# *‘Rutting Chimpanzee’*

- **Journalist Tristane Banon**
- **Part of one of Socialist Party’s top families**
- **Claimed she fought DSK off**
- **He was like a “rutting chimpanzee”**
- **Sent her “creepy texts”**

# *French Journalist's Account*

- He wanted me to hold his hand while he answered
- After the hand, it was the arm
- We fought on the ground,....,
- I kicked him, he opened my bra
- Tried to open my jeans.
- I got out of there
- I said the word "rape" when we were struggling....,
- It didn't seem to scare him, as if he was used to it.

# *The Scandal Before The Scandal*

- **2008 in Davos**
- **DSK accused abuse of power**
- **Liaison with subordinate Piroska Nagy**
- **Pressured Nagy to leave?**
- **Paid her unusually large severance?**

# Woman Accused IMF Director of Coercing Her in 2008 Affair

## Woman in 2008 Affair Is Said to Have Accused I.M.F. Director of Coercing Her

By LONDON THOMAS Jr.  
Published: May 16, 2011

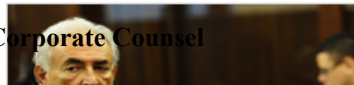
In the fall of 2007, just as [Dominique Strauss-Kahn](#) was starting his job as managing director at the [International Monetary Fund](#), he asked all divisional heads to give him presentations on their specific areas of focus.

[Enlarge This Image](#)



Dieter Nagl/Bloomberg News  
Piroska M. Nagy had a brief affair with the managing director of the I.M.F. in 2008.

### Multimedia



One briefing was on the fund's activities in Ghana. The fund's operations in the small west African country were minimal. But Mr. Strauss-Kahn took a keen interest in the woman making the presentation — Piroska M. Nagy, a blond Hungarian-born economist who was 50 at the time and who had worked at the I.M.F. since 1986.

Mr. Strauss-Kahn's subsequent brief affair with Ms. Nagy, who is married, soon became public — spurring an internal investigation at the fund that would ultimately clear him of having abused the power of his office.

Now, in the aftermath of Mr. Strauss-Kahn's arrest on charges that include attempted rape, his past conduct is undergoing fresh scrutiny. A person with direct knowledge of Ms. Nagy's version of what happened and her view of the I.M.F. investigation said that the affair — which was conducted at the World Economic Forum in Davos,

[f](#) RECOMMEND

[t](#) TWITTER

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**SNOW FLOWER**  
and the SECRET FAN  
WATCH THE TRAILER

# *Defining Loyalties and Interests*

- Nagy's husband discovered affair
- Told lovers: "adverse publicity"
- DSK did not go to IMF
- Hired his own lawyer, PR firm
- "Concerned about damage disclosure..."
- Reputation of IMF?



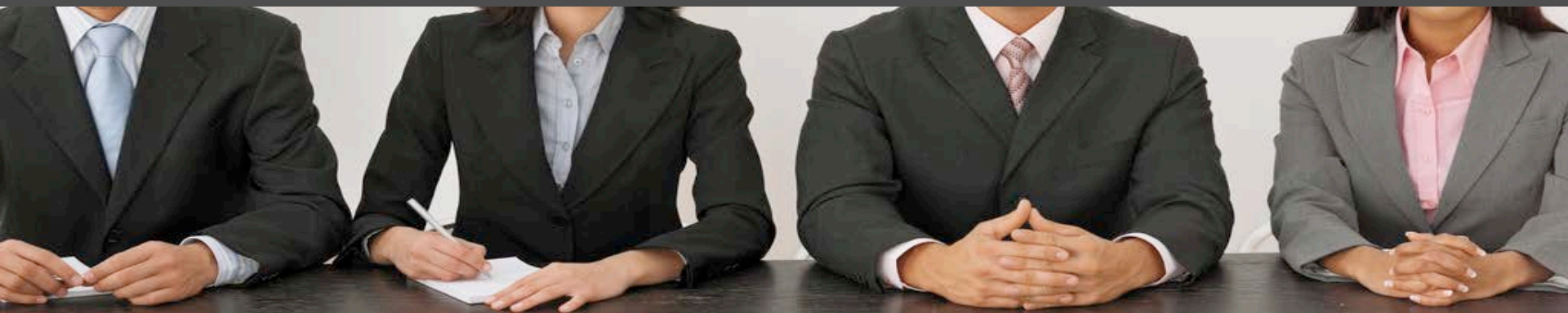
# *Coercion?*

**"Despite my long professional life, I was unprepared for the advances of the managing director of the IMF. I did not know how to handle this. I felt, 'I was damned if I did and damned if I didn't.'"**



# *Board Divided*

- 3 of 24 Board members were informed
- Left DSK in charge
- Approved internal investigation only
- 21 Board members left uninformed



# *Who Knew, When?*

- Arab representative found out
- Told the Russian board member
- Who told the American
- Who told the GC
- Who told no-one else
- Until WSJ informed the other 21



# *Whose Privacy?*

- **Why not full board?**
- **GC: “protect privacy”**
- **Whose privacy?**
- **Better for WSJ to know first?**





# *First Investigation Was DOA*

- **Nagy refused to cooperate**
- **Distrusted motives and method**
- **Lacked support of entire Board**
- **DSK's shadow**

# *Second Investigation*

- **Outside law firm hired**
- **DSK "formally informed" of cooperation**
- **Not ordered to cooperate**
- **DSK "encouraged" others to cooperate**
- **Chilling cooperation**

# *Investigation of the Investigation*

- **Lawyers read IMF standards**
- **Talked to in-house counsel**
- **Interviewed 28 IMF employees**
- **Read documents and e-mail**
- **Described as "comprehensive and complete"**
- **Submitted a 9-page report to the IMF board**

# *Findings*

## **Investigators:**

- **Noted Nagy never filed complaint**
- **Characterized messages as "consensual"**
- **"Consensual relationship...short duration"**
- **Both "actively engaged in the pursuit"**
- **"Both agreed to...hide...relationship."**



# *But Were There Others?*

- **Investigators "reviewed other allegations"**
  - “Did not find any evidence to support” them
  - Spent few days at IMF
  
- **Daily Telegraph of London reports**
  - Evidence of another DSK affair
  - Married Asian administrative worker

# “CONCLUSION”

- Invited IMF to "reach its own conclusions"
- After 6 pages of findings, one "Concluding Observation:"
  - Should framework for MD's conduct be higher standard than staff, given "prominence and reputational consequences" consistent with "prevailing best practices?"

# *IMF Board Considers Matter Closed*

## **Concluded inquiry October 25, 2008**

- **Thanked counsel for careful, exhaustive effort**
- **Made report public**
- **No harassment, abuse of authority, but regrettable**
- **And a serious error of judgment**
- **NO DISCIPLINE**

# *What Principle Guided the Board?*

**Former IMF official Eswar Prasad:**

**"The IMF Board felt that at this stage he had taken his lumps" and that any censure would merely serve to undercut DSK's leadership.**

**WSJ 10/27/08**


# *Stand by Your Man*

- DSK's wife: "one night stand"
- "We've put it behind us"
- Nagy and husband to London





# *DSK's REPONSE*

- 
- DSK apologized: "I am committed, going forward, to uphold the high standards"
  - DSK told French lawyer to sue rumormongers
  - DSK's lawyer: "people who relay rumors without checking anything"

# *Nagy on DSK*

**“Brilliant leader with a vision addressing the ongoing global financial crisis.”**

*But...*

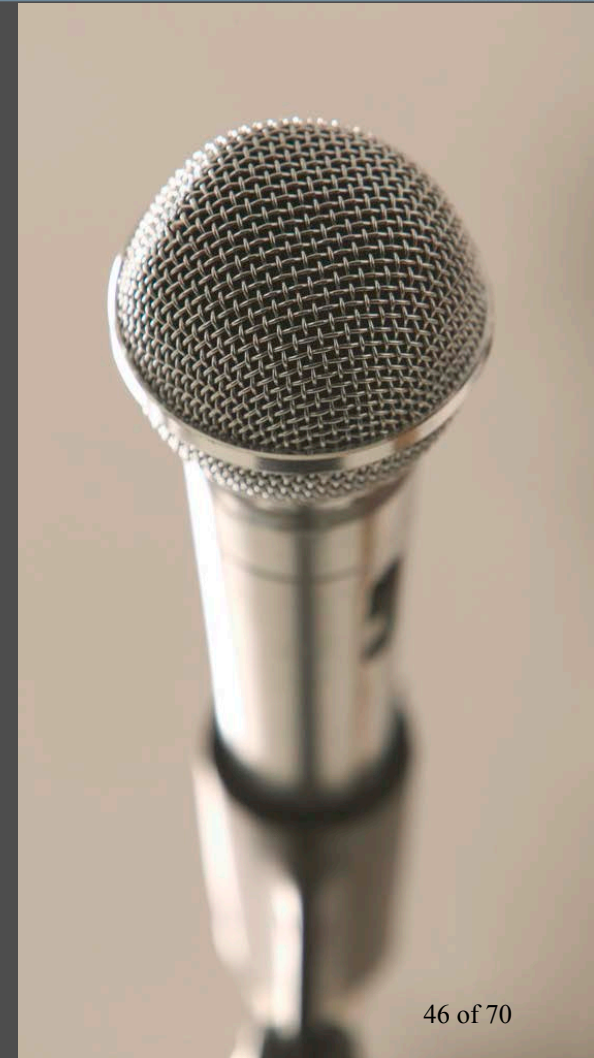
**“But I fear that he is a man with a problem that may make him ill-equipped to lead an institution where women work under his command.”**

# *Fast Forward to 2011*

- **DSK virtual *alter ego* of IMF**
- **From jail, DSK speaking on IMF's behalf:**
  - **I want to protect this institution which I have served with honor and devotion**

# *Message Management*

- **IMF wants global stability**
- **Developing nations into wealth**
- **With sound forecasts**
- **And trustworthy loans**
- **IMF's message hijacked by DSK**



# *IMF Shouldn't Be Associated With:*

- **\$3,000/night hotel room**
- **Sex—forced or not**
- **\$75,000 allowance**
- **Coerced affairs**
- **Divided boards**
- **Botched investigations**





# *Slow Response*

- **March 19, 2011 (day after DSK quit)**
- **IMF released new rules for harassment**
- **Affair with subordinate = potential conflict**
- **Failure to report and resolve = misconduct**

# “Close Personal Relationships” Taboo?

## ETHICS FRAMEWORK

### IMF Updates Standards for Staff Conduct

May 19, 2011

The IMF has revised its standards of conduct for staff, bringing to fruition more than two years of work on strengthening the institution's ethical framework. The enhanced standards of conduct introduce new reporting requirements on close personal relationships in the workplace and update the institution's policies on harassment and discrimination. They also reinforce protection against retaliation for staff who report suspected misconduct, while clarifying procedures for conducting and overseeing investigations of such misconduct.

The process of updating the standards of staff conduct and related disciplinary procedures has been under way since 2009. Led by the IMF's [Ethics Advisor](#), this work involved broad collaboration and consultation across the institution, including a working group on staff conduct with diverse staff membership, and the Staff Association Committee. The Fund also benchmarked its policies against those of comparator institutions and reviewed best practices in a cross-section of other organizations.

“Clear and well-defined policies and procedures are essential for establishing a strong ethical foundation, and are in keeping with the Fund's commitment to promoting transparency and accountability,” said Virginia Canter, a former Associate Counsel to the President of the United States who has served as Ethics Advisor since early 2010. “These standards help create a positive, respectful, and productive workplace.”

The updated standards were approved by IMF Deputy Managing Director Nemat Shafik on May 6.

#### More accessible format

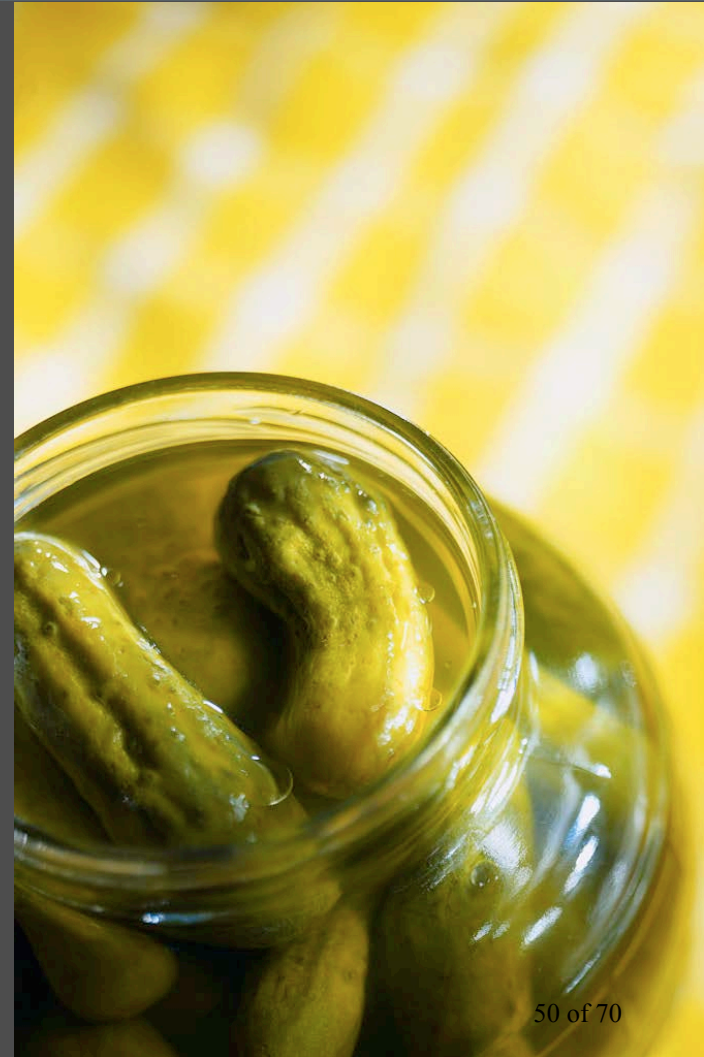
The new standards, published as a [General Administrative Order of the IMF](#), display the information in a more concise, clear way, making it easier for staff to find and interpret the institution's rules. This latest periodic review of the IMF's policies and rules on employee conduct provided an opportunity to revamp the presentation of the standards on the institution's website.

The main enhancements to the standards of conduct include:

- **a new policy on close personal relationships in the workplace**, which requires that a supervisor who has an intimate personal relationship with a subordinate report such relationship to the Ethics Advisor, his/her supervisor, or the Human Resources Department to seek resolution to potential conflict of interests and workplace fairness concerns. Failure to report and then resolve the potential conflict of interest constitutes misconduct and is grounds for disciplinary action.
- **a new policy concerning protection against retaliation**: retaliation against a staff member for reporting suspected misconduct or participating in the Fund's dispute resolution system has been added explicitly as a form of misconduct;
- **greater emphasis on prevention and early resolution in policies on harassment and discrimination**. The IMF's policy on harassment, including sexual harassment, already made clear that harassment in any form is not tolerated, constitutes misconduct, and triggers disciplinary actions up to and including termination of employment, but the new standards of conduct emphasize early action; and
- **an update of investigative and disciplinary procedures**, including clarifying the respective authority of the Ethics Advisor, Human Resources Department Director, and other IMF officials.

# *A Pickle*

- **Foreseeable future**
- **DSK Affair = IMF's business**
- **C-suite scandal always is**



# *Existential Threat*

- **C-suite scandal is existential crisis**
- **Depending on overlapping brand identity**
- **May even require re-branding**

# *What If?*

- Scandal 1 handled better?
- Scandal 2 happen at all?
- Or connected with IMF?
- Pre-Scandal 1 uncovered?
- Controls in place?
- Board on same page?



# *Best Practices: What Should have Happened*

- **Protect the rock star from himself**
- **One thorough investigation of Nagy claims**
- **Let Board be Board**
- **Proceed clinically**
- **Don't defer to outside interests**
- **Define and clarify issue**
- **Be clear about result**
- **Don't delay**
- **Laboratory conditions**
- **Tell your own story with one credible voice**
- **Don't feed media machine**
- **Tell truth, frugally**





# Best Practice:

## *Protect Mick Jagger from Himself*

- **No \$75K unaccountable allowance**
- **Empower the handlers**
- **Keep him busy**

# Best Practice:

## *One Scandal One Investigation*

- **Begin learning ASAP**
- **Disentangle it from politics**
- **Frame issues**
- **Continue to reframe issues**
- **Working theories only; no biases**
- **Don't rely on formula, exterior structure**
- **Hire the best right away**

## *Don't Shortcut Investigation*

- **As long as it goes; Board has cover**
- **You will know when it is ready**
- **Shoes have to drop**
- **Gatekeepers emerge**
- **IT is not the solution**
- **Unique facts trickle**
- **Bread cannot be micro-waved**

# Best Practice: *Don't Let Investigator Merely Re-state Problem*

- Demand unique facts
- Insist on rigor
- Expect pragmatic recommendations
- Don't attach a minder
- Let investigator talk to media
- Open the books and halls

# Best Practice:

## *Use Media; in the Right Situation*

- **Go on PR offensive**
- **Media acts as filter**
  - What is important?
  - What is the gist?
  - How much detail?
- **With core message**
- **Sometimes with something new**
  - A bill of rights
  - Changes--fresh leadership




# *Tylenol in 1982 and 1986*

- Recall of 31M bottles
- Packaging changes
- Pills only
- Let TV into strategy sessions



# *Best Practices:* *Identify the Real Outrage*

- 
- Sometimes it's not judgmentalism
  - Or anger at greed or lust
  - Sometimes its betrayal

# Best Practice:

## *No Comment is Not Always Enough*

**Rehearse answers to expected questions:**

- **What happened?**
- **When did you learn about it?**
- **What did you do?**
- **When did you start?**
- **Why did you not do X?**
- **What are you doing now?**

# *The Right Words*

- Outline expected questions
- Forget plausible deniability
- Work on word lists



# *Bad Words*

- **Nothing juicy**
  - Sex, sexual
  - Abuse
  - Stupid
  - Scandal
  - Rape
  - Guilty
  - Sodomy
- **Don't repeat press's words**
  - Pornography
  - Allegations
  - Careless
  - Bad
  - Pervert
  - Mess
  - Criminal

# *Reflection During Media Storm*

- **Right messenger?**
- **Messages to convey?**
  - Working harder to get better at X
  - Being thorough takes time
  - We will not rest in our efforts to X
  - We will work hard to deserve the public trust
- **Messages focused enough for TV?**
  - Work on key phrases even harder
- **View media narrative as dynamic**

# Panel Discussion of Best Practices: *Ongoing Vigilance*

- **Works best when no-one is above the rules**
  - **Governance**
  - **Supervision**
  - **Failure to ask the right questions**
  - **Checks and balances**
  - **Internal controls**
  - **No islands**



# Panel Discussion:

## *Fulfill Recommendations on Time*

- **Not in the middle of the next scandal**

# Panel Discussion: *Role of GC*

- GC as Ambassador
- GC as Ethical Conscience
- Equal voice



# *Panel Discussion*

- **Most dangerous predicaments**
- **Conflicts of interest**
- **Issues of privilege for inside counsel**
- **Irreconcilable differences in strategy**
- **Can there be a 30-60-90 day plan?**
- **What are the guiding principles?**





## 2012 ACC Annual Meeting (October 2)

A large, curved, grid-like structure, possibly a dome or a modern architectural feature, with the words "THANK YOU" overlaid in large white letters. The structure is composed of a series of parallel lines that curve inward, creating a sense of depth and perspective. The lighting is dramatic, with strong highlights and deep shadows, emphasizing the geometric patterns of the structure.

THANK YOU