

# The Washington Post

## The unusual way KB Home punished its CEO for screaming profanities at Kathy Griffin

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September 22, 2017

Discipline for CEOs with a penchant for bad behavior in their personal lives tends to come in one of two ways.

If the offense is embarrassing but something from the past -- like the years-old graphic [emails](#) Snapchat CEO Evan Spiegel sent as an undergrad fraternity bro -- a mea culpa may suffice. If it's disturbing and unforgivable -- like kicking a dog in an elevator, something former Centerplate CEO Des Hague was caught on [video doing](#) -- a resignation or ouster may be in order.

But homebuilder KB Home took a different tack after its CEO, Jeffrey Mezger, was caught on [audio](#) ranting at his neighbor, comedian Kathy Griffin, in a profanity-laced tirade using explicit and vulgar slurs. The company's board decided to dock his 2017 bonus by 25 percent -- and then threatened to fire him if he did it again. "If in the future there is any similar incident, he will be dismissed," the company said in a regulatory filing.

That kind of one-two punch is unusual, said corporate governance experts -- but could become more common. And it raises interesting questions about how CEOs -- particularly in an era of high executive pay and social media -- should be punished after embarrassing themselves in public.

"If you're willing to accept that kind of money, you're giving something up, and it's the separation of your private life and your public life," said Charles Elson, director of a corporate governance center at the University of Delaware. "They've become quasi-public figures, and the standard by which they're judged is higher."

He said ballooning pay packages -- median CEO pay at the country's largest companies [hit \\$16.9 million](#) in 2016 -- have made them akin to professional athletes in the public consciousness.

"If they expect to be paid like superstars, they're going to get treated like superstars, where your personal life is no longer your own," he said. "A CEO never punches off the clock. The trade-off is they pay them for it."

In Elson's estimation, KB Home's board likely felt Mezger's private actions did not impact his ability to remain CEO, but could affect the company's value. The rant, [published](#) Tuesday by Huffington Post, went

viral on social media, with personal finance guru Suze Orman asking in a [tweet](#) "You really want to buy a home from this man? Beyond Disgusting!"

It is not yet clear what Mezger's 2017 bonus will be. In 2016, the value of his "non-equity incentive plan compensation" was \$3.8 million, according to [company filings](#). Mezger's total compensation for 2016 was valued at nearly \$9 million.

[Rosanna Landis Weaver](#), an executive compensation expert at the nonprofit [As You Sow](#), said it's unusual to see a CEO's bonus -- which typically follows formulas tied to profit goals or other financial performance measures -- docked for offensive personal behavior. But, she said, "I think boards are feeling more emboldened to address compensation directly and that's a good thing. We keep talking about pay for performance, but pay can be a stick as well as a carrot."

[Weaver](#) noted, however, that it's possible for companies to increase pay in other parts of CEOs' complex compensation packages, such as their salary or long-term equity incentives, when a bonus cut is made. "I hope my cynicism is misplaced, but it's hard earned," she said.

A spokesperson for Mezger said neither the company nor Mezger would be making further comment. In its [filing](#), the company said "Mr. Mezger's recent behavior in his personal dealings with a neighbor is unacceptable and a negative reflection on KB Home," but also wrote that "Jeffrey Mezger has always conducted himself in a professional manner during his tenure" and "has been a very effective CEO and a great leader for the company. Mr. Mezger has the full and complete confidence of the board."

Nicholas Donatiello, a lecturer on governance issues at Stanford's Graduate School of Business, said he could not remember the last time a company's board of directors "drew a line in the sand about anything, much less personal behavior," saying it is rare for boards to publicly articulate what would prompt them to fire a CEO. The company, after all, will now be held accountable if it doesn't follow through. "This is a very strong statement by KB Home's board."

Still, he thinks companies may do more of it. "The media environment has made it clear that when you're the CEO of a public company -- especially one that sells to consumers -- you're the CEO all the time, not just when you're in the office," he said.

In addition, the style of leadership companies today expect from CEOs -- less command-and-control general, more collaborative corporate citizen -- means the CEO is always expected to set an example.

"The most important thing they did was send a message to all employees at KB Home that 'this is not who we are and this conduct will not be tolerated at this company,'" Donatiello said. "If you don't send that message, you're saying it's okay."

Docking a CEO's pay for personal offenses is not unprecedented. Back in 2006, the board of Raytheon [punished](#) former CEO William Swanson after he did not give credit to an engineering

professor for passages in a popular booklet he had published about management rules. The board froze his salary for a year and cut his restricted stock bonus by 20 percent. A New Zealand media company CEO had his **pay cut** this year for having an affair with other executives' personal assistant.

Even if the move was unusual, many in the public might agree with KB Home's move. A **survey** by Stanford's Rock Center for Corporate Governance found that foul and abusive language by a CEO -- in the survey, the question had it directed toward employees -- was among the worst offenses executives could make. More than 40 percent said they should lose their bonus or receive a reprimand, and more than half called for their ouster.

"The public is extremely intolerant of bad behavior by CEOs," Donatiello said. While the survey didn't ask about vulgar language in the CEOs' private lives, he said, "when more than half of the people say you should be fired for being profane with employees, you can conclude they are holding CEOs to a high standard, and that probably applies to their personal lives as well."

[https://www.washingtonpost.com/news/on-leadership/wp/2017/09/22/the-unusual-way-kb-home-punished-its-ceo-for-screaming-profanities-at-kathy-griffin/?utm\\_term=.aec67e131605](https://www.washingtonpost.com/news/on-leadership/wp/2017/09/22/the-unusual-way-kb-home-punished-its-ceo-for-screaming-profanities-at-kathy-griffin/?utm_term=.aec67e131605)