

Crisis of the Week: KB Home Puts CEO on Notice After Profanity-Laced Rant

By
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In this Oct. 29, 2007, photo, KB Home Chief Executive Jeffrey Mezger speaks during a panel discussion on the subprime market fallout in Beverly Hills, Calif. Photo: Associated Press/Ric Francis

This is a weekly commentary by external experts.

Home builder KB Home gets a turn on the crisis wheel after its chief executive, Jeffrey Mezger, was caught on an audio recording [berating his neighbor](#), comedian Kathy Griffin, in a [profanity-laden rant](#) that contained sexist and anti-gay language.

The company, [in a filing](#) to the Securities and Exchange Commission, said it was withholding 25% of Mr. Mezger's annual bonus. It said while Mr. Mezger has the "full and complete confidence of the board," he was told he will be dismissed if there any future incidents, calling his behavior "unacceptable and a negative reflection on KB Home."

It also issued a statement—not on its website—on behalf of Mr. Mezger apologizing for "losing his temper" but saying his response followed "a series of unneighborly actions taken by Ms. Griffin and her boyfriend." Ms. Griffin later [sought](#), and [received](#), a restraining order against Mr. Mezger.

The experts grade KB Home's communications response to this situation.

Daniel Laufer, associate professor of marketing, Victoria University, New Zealand: “The role of the board of directors of KB Home is to act in the best interest of the company’s shareholders, which is to protect the company’s reputation. The chief executive is the company’s most senior and visible representative in the eyes of the public and his inappropriate behavior could potentially tarnish KB Home’s reputation. The board’s statements and actions are helpful in protecting KB Home’s reputation; however, there is also room for improvement.

“The board in its communications through a filing with the SEC tries to distance itself from the CEO’s behavior, while at the same time highlighting his success at the company as CEO. The board could have done a better job elaborating on how the company’s values differ from the CEO’s behavior, perhaps by highlighting diversity initiatives at the company.

“The board does a good job in disciplining the CEO; however, further actions can also be taken. Significantly reducing the CEO’s bonus is a good way to signal to the public that the company views the CEO’s behavior as inappropriate. In addition, stating that if a similar incident occurs again in the future the CEO will be dismissed is a powerful statement that reinforces how seriously the incident is viewed by the company.

“These steps are effective; however, requiring the CEO to undergo anger management and diversity training might also have been useful for the company. This would further convince the public the company is taking decisive action to prevent this type of behavior from occurring again.”

Ira Kalb, assistant professor of clinical marketing, USC Marshall School of Business: “KB Home deserves mixed marks for its reaction to the profanity-laced threats and sexist, anti-gay rhetoric of its chief executive. Instead of fully apologizing for his part in the incident, as proper crisis management protocols dictate, the company issued a statement on behalf of Mr. Mezger that weakened the apology.

“While it expresses Mr. Mezger’s regrets for his use of language and display of anger, it blames the neighbors, Kathy Griffin and her boyfriend, for provoking him by calling police about noise coming from his residence. Irrespective of any provocation, it’s Mr. Mezger’s actions that put KB’s image at risk, especially since he is both CEO and chairman.

“In its Form 8-K filing with the Securities and Exchange Commission, KB Home did make an effort to put this incident in perspective by delineating Mr. Mezger’s successful track record during his tenure with the company, which dates back to 1993. It proposes both a short- and long-term solution so a recurrence is unlikely—cutting his 2017 bonus by 25% and threatening to terminate him if there are any image-damaging incidents in the future.

“This incident serves as a reminder to KB and Mr. Mezger that the public has difficulty separating the off-duty behavior of top executives from the organizations they represent. It reminds anyone in the public eye any assumption of privacy, even in one’s own neighborhood, is a bad assumption.”

Jonathan Bernstein, consultant and crisis manager: “I think KB Home’s message distancing its values from those demonstrated by Mr. Mezger in this case was very important to make to both internal and external shareholders.

KB Home is all about being good neighbors by the very nature of its business and would be hard-pressed to continue presenting that face if its chief executive was getting away with being very unneighborly. For its workforce, KB must reinforce its values regarding appropriate behavior and set an example that may deter others, and not just Mr. Mezger, from similar behavior.

“I think it was a tactical error to [suggest] Ms. Griffin and her boyfriend were at fault, as if that justifies Mr. Mezger’s tirade. The company should have stuck to its message about Mr. Mezger’s behavior being inappropriate

and the sanctions it is enforcing. What KB Home should have added was some message of compassion and/or regret for the impact of its CEO's behavior on Ms. Griffin and her boyfriend."

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