

## CEO Expectations: A Teachable Moment

There has been a considerable comment and critique when Mark Hurd resigned as CEO of HP in August 2010. One TV commentator called this incident a “teachable moment” and I’d like to follow up on that theme this week.

*What can CEOs learn from this unfortunate incident where we had a seemingly successful CEO suddenly meet his demise?*

We’ll never know what really happened in the HP boardroom or during the board investigation. At best, bits and pieces will surface but the entire truth will be difficult to determine for anyone not present in those board discussions. Three topics have surfaced in the news reports and public comments made by HP. First was an issue of potential sexual harassment. Second was an allegation of false expense reports. Finally, after the resignation and in part to explain his separation package, there was considerable talk that this CEO really didn’t fit the HP culture and his leadership was lacking. This translated into a theory that the HP board, rather than give him an honest performance appraisal, used the sexual harassment and expense report issue as reasons to oust him.

So in this emotionally charged situation, where is the “teachable moment”? Given the increasingly stringent requirements on good board governance, I suggest it’s in the following 3 issues that set board and investor expectations for every CEO.

1. CEO Behavior
2. CEO Honesty and Integrity
3. CEO Performance

Each of these issues is important in its own right. CEOs today are expected to meet expectations in all three areas and any shortfalls in one can result in disciplinary actions and possibly dismissal. Let’s look at each in more detail.

### CEO Behavior

The behavior of every CEO is continuously being observed and judged. CEO behavior directly affects their company’s success and must always adhere to company values. Leadership is top down and if a CEO does not exhibit the proper behavior, how can others in the company be expected to?

Today’s definition of behavior includes not just discrimination and sexual harassment but how the CEO leads and treats others. Specifically, how they deport themselves internally and externally with investors, customers and suppliers. Behavior expectations now even extend to how they act

outside the office in their personal lives. Every company and every board defines either explicitly or implicitly what they believe the proper behavior should be for their CEO. There is little latitude for a CEO to deviate from these expectations and the penalties can be severe.

### CEO Honesty and Integrity

There is no room for a CEO to compromise their integrity. They must be completely honest in all their activities. False expense reports provide an excellent example. If an expense report is falsified, regardless of how small the infraction, directors and investors have the right and responsibility to ask what other information from the CEO is falsified. Maybe the board reports conveniently omit significant information the board needs. Maybe the financial statements have issues.

Gaining the trust and confidence of your board is critical for CEO success. It takes time and a lot of hard work. When trust is lost for any reason, it's very difficult to regain.

### CEO Performance

The rumblings and blog posts about Mark Hurd's ability to retain executives, his leadership shortcomings or other performance shortfalls raise a very important issue that every CEO must continuously manage. It's important for every CEO to agree with their board on a series of performance expectations against which they will be assessed. These expectations are the specifics of what they will do as well as how they will perform within the framework of the company's values. The board then owes the CEO timely and honest feedback and an objective performance assessment. If there are performance issues, they need to be identified and addressed before they fester into a larger problem.

### Feedback Process

Given the higher level of expectations, every CEO and board should take some time to reflect on the following questions.

- Have we established a clear set of behavioral expectations and company values that will provide the framework for how things get done at our company?
- Does our board understand and agree with these expectations and values?
- Is there a process to annually set CEO performance expectations and receive an annual performance appraisal from the board?

### The Bar Will Be Raised

The HP situation will cause many boards and investors to re-evaluate expectations of their CEOs and may raise the bar even higher.

The ability to decide what is right and what is wrong is an inherent part of every human being and CEOs are no exception. Doing what is right requires good judgment, courage and solid personal values. Each employee of a company, regardless of size, depends on their CEO to exhibit the right behavior and values at all times. This responsibility is serious and goes with the role of being CEO. If you can't or don't want to accept this responsibility, please pass the leadership baton to another.