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The Rise and Fall of Carly Fiorina: An Ethical Case Study

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This study examines the controversial tenure of former Hewlett-Packard (HP) CEO Carly Fiorina using the ethical leadership construct. Fiorina rose quickly through the ranks at AT&T and Lucent Technologies to become the most powerful businesswoman in the United States when she took the helm at HP in 1999. She prevailed in a bitter proxy fight over the firm's merger with Compaq Computer. However, she was abruptly fired in 2005. Both the CEO and members of the HP board failed as moral persons and as moral managers, leading to Fiorina's ouster and the subsequent HP spying scandal. HP went from one of the world's most admired companies to the target of criminal investigations and public criticism. Implications for leadership ethics are drawn from the experience of HP, and limitations of the ethical leadership construct are identified.

Keywords: *Carly Fiorina; celebrity CEOs; ethical culture; ethical leadership construct; Hewlett-Packard; pre-texting scandal*

Carleton (Carly) Fiorina was the most powerful businesswoman in the United States at the turn of the millennium (Nocera, 2006; Sellers, 1998). In 1999, she was hired as the CEO of technology giant Hewlett-Packard (HP), becoming the first woman to head a Dow 30 company. She starred in company commercials and joined with entertainment stars like Matt Damon, Ben Affleck, and Sheryl Crow to promote HP products at electronics shows (Stone, 2005). Her image appeared on the covers of business magazines and she was a regular at the World Economic Forum in Davos, Switzerland. She became known by her first name only, like Michael Jordan and Martha Stewart. To HP employees and outsiders alike, there was only one "Carly."

In 2005, the HP board of directors fired Fiorina. Yet, both Carly and HP continued in the national spotlight. Fiorina published a memoir, *Tough Choices*, and appeared on *60 Minutes* and on college campuses to defend her performance at HP. Fiorina's successor as board chair, Patricia Dunn, was accused of ordering investigations into board leaks that violated state and federal law (Robertson, 2007a).

What accounts for Carly's fall from the heights of corporate America? A number of explanations have been offered, including Fiorina's lack of operational skills, market conditions, recalcitrant employees, and gender bias. Although all of these may be contributing factors, in this article, I argue that her failure can also be explained from an ethical vantage point. Fiorina has never been charged with a crime, as were many of her CEO contemporaries like John Rigas, Hank Greenberg, Dennis Kowslowski, and Martha Stewart. Yet, the story of Carly Fiorina is a cautionary tale, revealing ethical shortcomings not only on Fiorina's part but also on the part of HP board members.

A Meteoric Rise and Fall

Few could have predicted that Carleton Fiorina would become one of the most visible and influential corporate leaders in America (Burrows, 2003). The daughter of a law professor, Fiorina attended Stanford University, majoring in medieval history and philosophy. She was a serious student who showed little of the dynamism that would later make her a charismatic leader. She abandoned her plans to become a lawyer after one semester at UCLA Law School and earned an MBA at the University of Maryland instead. Once she settled into a business career, she quickly became a superstar. Fiorina entered AT&T as a low-level sales manager and soon drew the attention of top management. She took on tough assignments and rapidly became "one of the great salespeople of her industry"

(p. 95), rising to become president of North American sales. Fiorina played a key role in AT&T's spin-off of Lucent Technologies and was named to head Lucent's sales and marketing group. The firm's revenue and stock value rose dramatically during her time there. In 1998, she was first named as *Fortune* magazine's most powerful female American executive. She continued to top this list throughout her tenure at HP (Loomis & Ryan, 2005).

At the same time Lucent stock was soaring, HP was losing some of its luster. The company, founded by Bill Hewlett and David Packard in 1939, was one of the first to offer such benefits as profit sharing, flex time, catastrophic insurance, and tuition assistance to employees. Founders Bill and Dave believed that the company made money because they were good to their people. The company's strong culture was based on a set of values known as the "HP Way." These principles included treating everyone with respect, sound finances, trust in employees, technical excellence, teamwork, thrift, humility, and hard work. Following these principles paid off handsomely. According to journalist Peter Burrows (2003),

> HP had been wildly successful. It had never suffered so much as one annual loss in 63 years. But what made HP a management icon was how it achieved those results. For decades, the company had balanced stellar financial performance with unquestioned integrity, from how it kept the books to how it treated its employees and customers. It had plowed millions into the communities in which it did business, not only out of charity but out of a progressive self-interest in keeping them strong. Put simply, it seemed HP had figured out the magic formula for how to run a company. Everyone won—investors, customers, managers, and employees. (p. 14)

By the late 1990s, critics both inside and outside the company believed that HP had lost the magic formula described by Burrows. Employees expected regular bonuses whatever their level of effort. HP was no longer a technical leader but had evolved into a huge bureaucracy resistant to change (Anders, 2003). It periodically missed earnings projections and its stock price lagged behind high-tech rivals like Dell and Sun Microsystems. Concerned that the company was becoming unwieldy, board members spun off the test and measurement businesses into a new firm called Agilent Technologies. CEO Lew Platt agreed to step aside.

There was no clear internal successor to Platt, so the board hired an executive search firm to locate an outsider to lead the company (Anders, 2003). Soon, Carly Fiorina emerged as the leading candidate. Unlike Lew Platt, a quiet individual who largely shunned attention, Fiorina was media savvy. She epitomized the "celebrity CEO." Celebrity CEOS are bigger-than-life figures often called upon to rescue organizations. They enjoy the limelight, acting more like rock stars than traditional business executives (Khurana, 2002; Sloan, 2001; Varchaver, 2004). Fiorina had never run a corporation and came out of a different industry. Her expertise was in sales and marketing, not in operations.

To lure Carly to HP, the board offered a compensation package that included $65 million in stock options and restricted stock, a $3 million signing bonus, and a $1 million annual salary with a $1.25 million to $3.75 million annual bonus. She also received more than $36,000 for mortgage assistance, a relocation allowance, and a contract that not only allowed her to use company planes for personal use but encouraged her to do so (Burrows, 2003). This package dwarfed anything offered to her predecessors. Lew Platt stayed on as an advisor to ease the transition and Richard Hagborn, founder of HP's printer business, agreed to act as board chair. Hagborn's strengths—his knowledge of HP and operational skills—were to help compensate for Fiorina's weaknesses.

The new CEO's arrival generated a great deal of excitement in the media and among employees at HP. After her hiring was announced at a major press conference, Carly conducted a whirlwind tour of HP facilities to introduce herself. Business writers wrote of the new energy she brought to the moribund company and how she was going to take the firm in a badly needed new direction (Burrows & Elstrom, 1999; Hardy, 1999). To many employees, Carly signaled a welcome change, and a number of women looked to her as a role model.

Fiorina believed that the HP Way was a major cause of the company's mediocre performance. She treated workers who clung to the HP Way as the opposition. Their devotion to the past put the firm at risk. For the company to move forward, those who resisted change would have to be removed. "If one-quarter of the people in HP don't want to make the journey or can't take the pace," she told a reporter, "that's the way it has to be" (Malone, 2007, p. 378).

Fiorina instituted three changes, in particular, that had a major effect on HP's culture. First, she shifted priority from nurturing employees to financial performance. Financial results (sales and revenue growth,

stock price) became the primary value under her leadership. In one of her first meetings with her top managers, Fiorina interrupted a presentation to say, "Let me make something very clear. You will make your numbers. There will be no excuses. And if you can't make your numbers, I will find someone who can" (Burrows, 2003, p. 141). She was more concerned with revenue growth and earnings than were her predecessors. Under previous leaders, reporting quarterly earnings was routine. Not so under Carly. She and a team of advisors pored over the numbers, trying to put them in the best light. Whereas the company's founders were conservative, believing it better to underpromise and overdeliver, Fiorina continued to promise double-digit sales and revenue increases even in the face of the economic downturn of 2000-2001 (Nee, 2001).

Carly's second major change initiative altered HP's reward metrics. The CEO replaced HP's profit-sharing plan with an incentive program that would provide a bonus to all employees if the company hit its financial targets. Salespeople, who had been salaried, now earned commissions based on individual sales. Commissions were handed out twice a year to keep the sales force from "coasting" until the last quarter (Burrows, 2001).

Fiorina's third cultural change focused on structure. In the past, divisions at HP operated largely as independent businesses focusing on the development and sale of particular products. This structure kept operating units smaller to maintain the firm's person-centered culture (Malone, 2007). Carly reduced 83 units to 4. Two "back end" units manufactured computers, printers, and imaging equipment. These units then turned the products over to two "front end" units that targeted either consumers or corporations (Burrows, 2001).

Within a year, Lew Platt left HP, complaining that the new CEO wasn't listening to his advice. Board chair Dick Hagborn stepped down and Fiorina assumed the roles of both CEO and board chair. Her biggest supporter at first, Hagborn would grow increasingly concerned about Carly's shortcomings and later worked to remove her (Malone, 2007).

Company cutbacks in 2001 marked a significant downturn in the relationship between Fiorina and her workforce. First, she asked employees to take a voluntary pay cut or time off worth up to 10% of their salary (Carly also passed up a $625,000 bonus). Eighty-six percent of the workforce complied, although they were told that the voluntary reductions did not guarantee that there would be no further layoffs. Still, when HP then instituted the biggest layoff in its history shortly thereafter, many workers felt betrayed (HP manager, personal communication, July 15, 2007). How the layoffs were handled also undermined Fiorina's credibility. Previously, frontline managers decided which employees to cut. This set of reductions came from the top of the organization instead and seemed to have no relationship with performance. Cuts were across the board and involved both high and low producers. Managers got scripts to read to those who were affected. Laid-off employees only had a short time to clear out and say their goodbyes. This may have been common practice at other companies, but not at HP (Anders, 2003).

A survey of 8,000 employees revealed widespread unhappiness about poor communication and poorly implemented decisions. This was a complete reversal of earlier surveys, which found that HP had some of the highest employee satisfaction scores in corporate America (Burrows, 2003; Malone, 2007). Some workers booed the CEO at company meetings. The company electronic bulletin board was shut down after employees used this forum to attack Fiorina.

Employee dissatisfaction took the form of active resistance in 2002. Carly launched merger talks with Compaq, a move that would add 65,000 employees and increase the company's presence in the computer market. Current and past employee stockholders largely opposed the merger. They doubted that HP's culture could survive the influx of so many new workers (Malone, 2007). Their champion was board member Walter Hewlett, Bill Hewlett's eldest son. The board pushed for the Compaq deal over Hewlett's objections. An ugly, highly publicized proxy broke out. Fiorina dismissed Hewlett as "an academician and musician" in a letter to stockholders. Information about board deliberations was leaked to the press, which would later prompt Fiorina to launch an investigation to identify the source(s). At a crucial junction in the proxy battle, she talked to investment managers at Germany's Deutsch Bank (who would earn $2 million in fees if the merger went through) to win their support. Bank officials are not supposed to consider existing financial relationships when voting company shares, and Deutsch Bank later paid a $750,000 fine to the Securities and Exchange Commission (SEC), which regulates U.S. financial markets (Burrows, 2006). The merger passed, but only by a slight majority. Hewlett then unsuccessfully challenged the results in court.

2004 marked the last full year of Carly's tenure. By this point, HP stock had lost half of its value. Dell began to eat away at HP's highly profitable printer business (Elgin, 2005). The business press, which had once lauded Fiorina, began to complain about her lack

of operational skills and failure to chart a coherent direction for the company. Employee morale continued to drop. The CEO and her board sparred over appointments to head divisions of the company, plans for further reorganization, and suggestions that she hire a chief operating officer. Issues came to a head in the third quarter when the company badly undershot earnings projections and it looked like Fiorina was sacrificing others to cover for her mistakes. (She fired three executives in a 5 a.m. phone call for failing to meet the numbers.) The board removed Carly in February 2005, providing her with nearly $28 million in severance pay (Loomis & Ryan, 2005). Employees celebrated her departure. At HP's Boise facility, employees distributed Hostess Ding Dongs to announce, "The witch is dead" (Malone, 2007, p. 386). Four pension funds holding HP stock filed a lawsuit claiming that the board had violated company policy by authorizing excessive severance benefits without shareholder approval (Marquez, 2006).

The board selected Mark Hurd from NCR to be Fiorina's successor. In many respects, Hurd was the "UnCarly" (Hardy, 2007). The new CEO avoided the spotlight, turning down most interview requests and avoiding technology shows (Lashinsky, Burker, & Kaufman, 2006). Instead of traveling to the World Economic Forum, he spent a day working at a local Best Buy to learn how customers view HP products. He has restored the firm's divisional structure to foster accountability and doesn't intimidate managers, believing that intimidation keeps them from doing their best. Under Hurd's leadership, the company has overtaken Dell as the largest PC manufacturer and its stock price has soared (Liedtke, 2008).

New board chair, Patricia Dunn, started a second round of investigations of board leaks in 2006, driven in part by distrust and conflict between directors. Private investigators secretly spied on board members and gathered extensive background information on reporters and their spouses. They also obtained phone records of board members, employees, and journalists under false pretenses (a process referred to as "pre-texting") and tried to install spyware on reporters' computers (Nakashima & Noguchi, 2006). Former Reagan science advisor George Keyworth eventually admitted to being the source of the leaks and left the board. Earlier, the board had asked Keyworth to be a liaison to the media, sharing information about company developments. Fellow board members accused Keyworth of going beyond his mandate by leaking details about private board discussions to a CNET reporter. For his part, Keyworth denied sharing any confidential or damaging information (Richtel, 2006; Waldman & Lublin, 2006).

Venture capitalist Tom Perkins resigned in protest over the spying tactics and the treatment of his friend Keyworth (Foley, 2006). Perkins then pressured the HP board (which initially kept silent about the leak investigation) to reveal why he quit.

When details about HP's investigative tactics became public, Dunn defended her decision to launch the probe in response to the disclosure of confidential information, arguing that the leaks had the potential to affect HP's stock price and that of other publicly held companies. However, she claimed that she didn't authorize the questionable methods (Waldman & Lublin, 2006). Later, Dunn was forced out of her post as board chair and Congress investigated. The former board chair, HP's ethics officer, and two private investigators were charged with identity theft and fraud. Dunn was acquitted and her codefendants pled guilty to misdemeanor charges (Robertson, 2007a). The company paid a $14.5 million fine to the State of California. The SEC found that HP illegally concealed the reason that Perkins had resigned from the board (Robertson, 2007b).

For a company long known for its excellent reputation, the pre-texting scandal marked a new ethical low. Edward Whitfield (R-KY), chair of the House Energy and Commerce subcommittee that investigated the scandal, summed up the firm's problems this way: "For the highest-ranking officials of a company like Hewlett Packard to be aware of and seemingly approve this kind of activity I do not think speaks well of their value system or their culture" (Nakashima, 2006, par. 24).

Hurd was also tainted by the scandal. He admitted to receiving information on the investigation but claimed that he left the details up to Dunn. He apologized for what had happened, pointing out that the board had lost sight of company values. The CEO then appointed a former federal prosecutor to gather facts on the way that HP conducts investigations. He began ethics training for executives and directors as part of a companywide ethics effort (Darlin, 2007).

A Failure of Ethical Leadership

The business and popular press blamed Fiorina's dismissal on poor execution, describing her as a leader who was better at creating and selling her vision than at running day-to-day operations. However, this analysis doesn't go far enough. First, a leader's success or failure depends as much or more

on moral reasoning as it does on strategic thinking (Paine, 1996). Billions were lost at Enron, Quest, Marsh & McLennan, Fannie Mae, AIG Insurance, and other firms because leaders engaged in unethical behavior and encouraged others to do the same. Second, focusing exclusively on Carly Fiorina's performance overlooks the important role played by the board of directors in this narrative.

The ethical leadership construct provides one framework for analyzing the behavior of both Fiorina and the HP board of directors. Many discussions of ethics are normative, outlining what leaders should do. In contrast, the ethical leadership construct is a social scientific approach to ethics and leadership that describes the behavior of ethical leaders. Trevino, Brown, and their colleagues (Brown & Trevino, 2006) define ethical leadership as "the demonstration of normatively appropriate conduct through personal actions and interpersonal relationships, and the promotion of such conduct to followers through two-way communication, reinforcement, and decision-making" (p. 595). According to this definition, the practice of ethical leadership is a two-part process (Brown, Trevino, & Harrison, 2005; Trevino, Hartman, & Brown, 2000). One, ethical leaders function as moral persons, behaving morally in their leadership roles. They are seen as honest, caring, and principled individuals who make fair decisions. Two, ethical leaders function as moral managers who promote ethical conduct in followers. They serve as role models, focus organizational attention on ethics and values, and reinforce ethical behavior through rewards and punishments. In so doing, they create more positive ethical climates (Johnson, 2007).

In contrast to the ethical leader, the unethical leader is weak as both a moral person and a moral manager. This type of individual (Sunbeam former CEO Al Dunlap, WorldCom's Bernie Ebbers) acts immorally and promotes such behavior in the organization. The ethically neutral leader falls somewhere in between ethical and unethical classifications. On the moral person dimension of ethical leadership, the ethically neutral leader is seen as more self-centered than people centered. On the moral manager component of ethical leadership, the ethically neutral leader is more focused on the bottom line than on values and principles. This generates the impression that the leader is neutral when it comes to ethical concerns.

The Ethically Neutral CEO

Carly Fiorina can best be categorized as an ethically neutral leader (Trevino et al., 2000). There is plenty of evidence that she was perceived, fairly or unfairly, as more self-centered than other centered. In particular, the CEO seemed to lack three important leader character traits: compassion, integrity, and humility.

Compassion. Compassion (kindness, generosity, love, and concern) describes an orientation that puts others ahead of the self (Peterson & Seligman, 2004). Ethical leaders exercise power on behalf of followers; unethical leaders pursue selfish ends. Coworkers at Lucent and at AT&T describe Carly Fiorina as a compassionate leader who brought in food for those who worked late and would offer to put up coworkers and guests at her house if the airport closed during bad weather. She appeared much less compassionate during her stint at HP. To begin, she came to the company with a contract that appeared to put her needs first (although she claims that she lost $85 million when she left Lucent). Once at HP, Carly put significant distance between herself and the workforce. Bill Hewlett and Dave Packard popularized the concept Management by Wandering Around (MBWA). They would regularly talk to engineers, for example, and often roamed the halls. Any employee at any level had immediate access to the founders. Lew Platt ate at the company cafeteria twice a week. In contrast, Fiorina rarely mixed with employees and hired a bodyguard. She expected to be treated not like everyone else but as the CEO of a major corporation (Burrows, 2003). Carly also seemed at times to overlook the human costs of her plans. The Compaq merger, for example, meant the loss of thousands of additional jobs. Her apparent indifference stands in sharp contrast to the attitude of her successor. Hurd has overseen massive layoffs as well but notes, "I don't want to forget we took 15,000 jobs out of the company and told a lot of employees to go home and tell their families that they no longer have jobs" (Darlin, 2006, p. 1).

Integrity. Leaders with integrity are perceived as trustworthy because they act consistently and carry through on their commitments. They inspire greater loyalty and commitment from followers. Perceived inconsistency was a major problem for Carly. She had a tendency to chart broad policy changes without understanding their effect and made promises she couldn't keep (Burrows, 2006). When she did fail, she was quick to blame the company's culture and other managers rather than to take personal responsibility. Employee loyalty and commitment suffered as a result.

Humility. Humility emerges as a key feature of outstanding leaders in the work of Jim Collins (2001). Leaders of great companies, according to Collins, deflect credit for the success of their organizations to

others, shun the spotlight, and live modestly. Morris, Brotheridge, and Urbanski (2005) define humility as (a) a realistic appraisal of the self (of strengths and weaknesses); (b) openness to new ideas and knowledge; and (c) transcendence—recognition that there are greater forces at work and that followers have much to contribute.

Lack of humility may well be the single most important contributor to Carly's fall from power. In her memoir, Fiorina (2006) notes that she turned down many requests for interviews. Yet, there is little doubt that she enjoyed the media attention. Her publicity efforts, including her appearance in HP commercials, seemed to promote Carly more than HP. Furthermore, she failed to demonstrate realistic self-appraisal, openness to new ideas, or a sense of transcendence. Fiorina was extremely confident in her abilities. For example, she rejected board suggestions that she hire a chief operating officer, saying at one point that "a CEO had better have his or her hands on the wheel" (Loomis & Ryan, 2005, p. 100). (Her refusal to ask for help was a key factor in the board's decision to fire her.) A top-down communication style discouraged feedback and devalued the input of employees. Until the end, she seemed to think that the fate of HP rested entirely on her shoulders. She apparently made no effort to groom a successor and drove a number of talented executives away, including many from Compaq (Elgin et al., 2005; Nocera, 2006).

Carly fell short where the company's founders excelled. Bill and Dave could be gruff and demanding but were seen as compassionate at heart. They agonized over layoffs and, according to company lore, would apologize for angry outbursts. They created one of the most humane workplaces in the United States. The founders also served as models of integrity. HP products were expensive but they were dependable. Wall Street could trust the numbers that Hewlett and Packard presented to analysts (Malone, 2007). Finally, Bill and Dave were humble to a fault, serving burgers at company picnics, driving old cars, and showing up at local hardware stores on the weekend.

Not only was Fiorina seen as self-centered, she also fell short as a moral manager. Press accounts mention few of her ethical initiatives. She focused instead on other priorities like increasing earnings and stock price, which made her appear unconcerned about traditional HP values like concern for people, respect, trust, and cooperation. Fiorina put HP at ethical risk through her obsession with making the numbers. Just how much risk can be seen by the near collapse of Lucent after she departed for HP.

At Lucent, Fiorina also believed in setting high sales targets to drive up the firm's sales price. Under her direction, sales managers used a variety of tactics to build sales, including loosening credit terms, pressuring customers to buy immediately so that sales could be booked in the current quarter rather than the next, and vendor financing—loaning up to the entire purchase price to dot-com companies. Many of these dot-com firms went bankrupt without repaying the loans. Unethical sales practices were a major contributor to Lucent's financial woes (Burrows, 2003). By late 2002, 100,000 employees were laid off and its stock sank to $1. The SEC accused Lucent of improperly booking $1.1 billion in revenue in 2002. The firm had to pay creditors of Winstar Communications $224 million for pressuring the company into buying unneeded telecommunication equipment (Gold, 2005).

At HP, there is evidence that Carly's pressure to make the numbers undermined the firm's ethical standards. Salespeople began to engage in "channel stuffing"—offering discounts or other incentives to get a buyer to purchase more of the product than they had originally planned. This practice essentially books future sales in the current quarter. Channel stuffing boosts quarterly results but drives down long-term demand because the customer now has a large supply of the product. It encourages accounting tricks and often leads to unprofitable sales. Carly didn't actively promote the practice at HP but didn't discourage it either, calling channel stuffing "a technical term" (Burrows, 2003, p. 169). Analysts, who had long looked to HP as a model of integrity, began to question HP's quarterly reports (Elgin et al., 2005).

Changing the reward and evaluation systems and corporate structure also had negative ethical consequences. Individual rewards undermined HP's collaborative culture that emphasized teamwork. The focus shifted from selling more profitable products that would benefit the company to selling low-margin items to boost personal income (Burrows, 2003). Many employees felt betrayed when bonuses were denied, further undermining trust and cooperation. Consolidating divisions increased Carly's power. CEOs of large organizations are always powerful and intimidating, but Fiorina was more so than most. She would, as noted earlier, use her power to intimidate followers (Kramer, 2006). Employees were reluctant to challenge the CEO, remaining silent about their doubts about her plans. Fear and silence are warning signs of possible moral failure because they prevent followers from speaking up when they note ethical misconduct (Jennings, 2006).

The Board: Shunning Ethical Responsibilities and Sanctioning Criminal Conduct

In contrast to Carly Fiorina, who is best classified as ethically neutral, HP directors can best be described as unethical. They demonstrated significant weakness both as moral persons and as moral managers. Their inadequacies as moral persons stemmed in large part from their neglect of their ethical duties as board members. Specifically, HP directors

1. ignored the founding values and principles of the company when setting a new direction instead of using them as an ethical foundation for change.
2. failed to have a succession plan in place. Board members have a moral duty to plan for the orderly transition of power, to ensure the development of leaders who can step in when senior executives move or retire (Charan, 2005). The succession process at HP was haphazard at best. Driven by faulty analysis and inadequate succession planning, board members began to search for someone who could "save" the company. In the era of the celebrity CEO, charismatic Carly Fiorina fit the bill.
3. put personal agendas above the good of the company. Board members seemed more interested in fighting one another and in investigating leaks than in being stewards of the corporation. Fiorina battled Perkins and Keyworth, as did Dunn. (Perkins and Dunn continued to snipe at each other in the press even after both had left the board.) They managed to do serious damage to HP's reputation as a result. Disgusted by the board's behavior, managers of two large pension funds proposed that shareholders be allowed to nominate a slate of directors (Darlin, 2007).
4. disregarded employee input. Employees are a critical stakeholder group in any work organization. Ethical leaders take the concerns of important stakeholder groups into account when making decisions. Board members at HP, on the other hand, apparently devalued the concerns of HP workers despite widespread evidence that they were unhappy with Carly's leadership. If the board had taken these concerns seriously, it likely never would have gone through with the Compaq merger that was opposed by current and past employees. Credit for the subsequent success of the merger should largely go to the HP employees who, once they lost the proxy battle, ensured that the integration of two firms went smoothly (Malone, 2007).
5. failed to provide adequate direction and oversight. Dick Hagborn could have provided important counsel to Carly and served as a check on her power if he had stayed as board chair. Instead, he stepped out of this role. Other evidence of lack of oversight includes the fact that the board never met to discuss the Compaq merger without Carly being present. Directors also boosted her potential bonus from \$3 million to \$9 million in 2001, despite the company's erratic performance and when the company was engaged in the largest layoffs in its history. Later, they softened Fiorina's exit with a highly generous compensation package that appeared to reward her poor performance and generated a lawsuit from investors.

In addition to failing to take their responsibilities seriously, individual board members directly engaged in unethical behavior. Board member Robert Wayman used his contacts to put Fiorina in touch with investment bankers at Deutsch Bank during the proxy fight. Keyworth revealed information about board deliberations to the press and then kept his actions to himself. Rather than dealing with this breach internally, board chairs Fiorina and Dunn authorized investigations that resulted in criminal activity. Dunn, with the approval of the corporate ethics office and outside counsel, approved pre-texting, surveillance, computer tracers, background checks, and other unethical and illegal activities.

Board members also failed as moral managers. They modeled unethical behavior through in-fighting, ignoring employee input, and spying. They focused attention away from important values, devaluing HP's ethical heritage. Only board member Walter Hewlett seemed concerned that Fiorina was dismantling the HP Way. By approving Carly's change initiatives, the board helped create a system that promoted unethical behavior.

Discussion

The ethical leadership construct is a useful tool for analyzing the fall of Carly Fiorina and HP's subsequent pre-texting scandal. According to this approach, the practice of ethical leadership includes two pillars: the moral person and the moral manager. Ethical individuals behave morally in their leadership roles and, at the same time, promote ethical conduct in followers. Both Fiorina and the board fell short of this standard. Fiorina acted as an ethically neutral leader who gained a reputation for being self-centered. She was perceived as lacking compassion, integrity, and humility. Her focus on the bottom line and individual rewards weakened the firm's ethical

culture. For its part, the board of directors acted as unethical leaders who were weak as both moral persons and moral managers. Board members failed to carry out the ethical responsibilities incumbent in their roles. They directly engaged in unethical behavior and sanctioned criminal activity. Through their poor example and disregard for HP's ethical heritage, the directors undermined the firm's moral reputation.

Applying the ethical leadership construct to Carly Fiorina's tenure at HP demonstrates, first of all, that a leader's success will depend as much on such virtues as humility and compassion as it does on such skills as public speaking and strategic thinking. Character needs to be an important component of any CEO selection process. Second, this case suggests that ethical neutrality may be a misnomer. Carly Fiorina didn't deliberately set out to create an unethical culture. Nonetheless, her perceived self-centeredness and single-minded focus on financial objectives undermined HP's ethical climate. Her experience should serve as a caution to other CEOS charged with organizational turnarounds. Leaders need to continually remind followers of the importance of achieving goals through ethical means. Merely ignoring ethical concerns is sufficient to put an organization at risk for corruption and scandal.

Third, HP's experience is further evidence that celebrity CEOs like Carly Fiorina aren't worth the risk. Quiet (and generally more effective) leaders have replaced many of their flashier predecessors at HP and elsewhere (Crosariol, 2005). Such quiet leaders appear less susceptible to the abuse of power and position.

Fourth, viewed through the lens of ethical leadership, what happened during and after Fiorina's tenure is a reminder that boards of directors are ultimately responsible for the organization's moral culture. Board members select chief executives, supervise their activities, and approve their policies. Irresponsible directors like those at HP put the organization's ethical reputation at risk. Board members must act as moral persons and moral managers by setting a moral example, promoting values, and ensuring that ethical conduct is reinforced.

Fifth, the rise and fall of Carly Fiorina and HP highlight the fact that a firm's ethical heritage can be its greatest asset. HP had a set of values and principles that allowed it to prosper over six decades of technological change. The company lost the trust of its employees, investors, and the public by setting these ethical standards aside.

In addition to demonstrating the benefits of using the ethical leadership framework, this case also demonstrates its limitations. One major component of the construct—ethical neutrality—needs further definition and clarification. As noted above, the term *ethically neutral* is misleading. Labels like *self-focused* and *pragmatic* appear to be better descriptors for leaders who have other priorities besides ethics. The experience of Carly Fiorina demonstrates that, when it comes to moral management, there is no neutral ground. Unethical leaders actively promote immoral behavior; ethically neutral leaders foster unethical organizational climates through neglect.

The ethical leadership framework also fails to account for the relationship between incompetence and immoral leadership. Fiorina and the HP board were both ineffective and unethical. Carly's centralized corporate structure proved unwieldy at the same time that it stifled dissent, for instance. By rewarding the CEO regardless of her performance, the board wasted funds while creating perceptions of unfairness and impropriety. This mix of incompetence and immorality is common among leaders, leading Ciulla (2005) to argue that the relationship between ethics and effectiveness is at the core of leadership ethics. She defines "good" leaders as those who are both competent and moral (Ciulla, 2004). Kellerman (2004) uses the same ethics/effectiveness framework when developing a typology of "bad" leaders. Addressing this interplay between ethics and effectiveness will strengthen the explanatory power of the ethical leadership construct, making it an even more robust analytical tool.

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