



Business

CEO Turnover Rising, CNNfn

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852 words

7 January 2004

CNNfn: The Money Gang

English

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PAT KIERNAN, CNNfn ANCHOR, THE MONEY GANG: It can take quite a while to get to the top in the corporate world. But going back down the ladder can happen very quickly. The rate of CEO turnover has been rising dramatically in the past decade or so. Fred Katayama has been looking at that story and joins me now - Fred.

FRED KATAYAMA, CNNfn CORRESPONDENT: Hey, Pat. Well, so much for the glory years of late `90s when many CEOs became celebrities and shrouded in the mystique and awe, a day when Michael Dells became Michael Jordans. But now some chieftains are enshrouded in scandal, others denounced for not delivering and boards are taking action. And so more CEOs are fired than ever before, you`d think they were NFL coaches at this rate.

Healthsouth dismissed Richard Scrushy who was charged in November with masterminding the \$2.7 million accounting fraud. A study by the consulting firm Booz Allen Hamilton found that forced turnover of CEOs has soared to a record high. Involuntary departures in North America skyrocketed by 56 percent in 2002. CEOs pushed out the door for bad performance or malfeasance accounted for 38 percent of all successions. That compares to roughly 20 percent in 2001. CEOs now face greater scrutiny as a result of the scandals and poor financial results. Some of them just simply run out of gas.

The average CEO now lasts just six years in the corner office. That`s the shortest it`s ever been according to a study done by Spencer Stewart. That average would be a lot lower were it not for people like Michael Eisner or Hank Greenberg who are practically glued to their corner office chairs for life. That compares to eight years back in 1980. In one extreme example, the board of the mortgage company Freddie Mac (<http://www.freddiemac.com>) decided to replace Greg Parseghian after he`d been at the helm for only two months.

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PETER CRIST, CHAIRMAN, CRIST ASSOCIATES: What we`re seeing now with the external pressures that have occurred, regulatory issues coming from the SEC, Sarbanes-Oxley, what you find is yet an additional layer, if you will, of energy needed to be expended. We think that most chief executive officers would admit today that they have to spend almost 20 percent of their time on the new regulations that are coming out and this is making the job even more extraordinarily difficult.

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KATAYAMA: Empowered board directors are sending a clear message to the CEO. deliver and stay clean, or get out. Booz Allen said shareholders activism and changes in corporate governance have in its words, transformed the CEO`s world - Pat.

KIERNAN: I`m trying to figure out if the good year for stocks in companies means that this is better for CEO turnover or worse? What`s the outlook for 2004?

KATAYAMA: Well, Pat, some experts are saying that exit door you`re referring to will revolve even faster this year. Now that the economy is poised to bounce back, the mind set of corporate boards may change because during a downturn, they`re often pretty lax with the CEO figuring that hey, other companies aren`t performing well and so it`s rather easy to mask underperformance. But they`ll opt to hire executives to take risks or manage for growth once the economy turns and so we may see that door revolve even faster.

KIERNAN: Corporate America has always been known for a lot of change and not being very patient with a company. Is this primarily a domestic thing or are we seeing it overseas as well?

KATAYAMA: Well, Pat, it used to be just a domestic thing. But right now these involuntary departures are becoming a global phenomenon. It used to be that European or Asian companies were rather stable places for CEOs. Now they`re acting increasingly like those here. They`re saying deliver or depart. The number of CEO successions in Europe for example, they nearly tripled since 1995. Those in Asia have more than doubled - Pat.

KIERNAN: Fred, are there -- is there a sector? Is it like the technology sectors where you`re seeing all this corporate change? Is that where you`re seeing the CEO turnover and the old line industrial companies are a little more likely to keep somebody for a few years?

KATAYAMA: Well, Pat, you`re pretty close on that one. It`s not tech but rather telecom. That was the sector that saw the highest forced turnover. In fact more than 9 percent of those involuntary departures involved telecom companies. But then to get to the other part of your question, no. Industrial companies are affected as well. Following telecom at number two was utilities and materials and high-tech, while that all three of them roughly 5 percent.

KIERNAN: Fred, thank you.

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