Door to Executive Suite Keeps Going Round

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By Susan Kelly

CHICAGO (Reuters) - The revolving door to the executive suite is spinning around again.

Corporate scandals, impatient boards and fed-up investors have forced a collective upheaval in the top ranks of American businesses since the stock market collapsed three years ago.

Now, CEO dismissals are on the rise again as more companies are willing to risk change with the economy on the mend, say recruiting industry executives.

"We are at a watershed turning point at this time in the economy," said John Challenger, chief executive of outplacement firm Challenger, Gray & Christmas.

A flurry of leadership changes in recent weeks at prominent U.S. corporations such as Kraft Foods Inc., Motorola Inc. and Delta Air Lines Inc. suggests installing a new CEO is high on the list of New Year's resolutions for many American businesses.

The tenure of the average chief executive, at just five years, is shorter than ever, a reflection of impatient corporate directors under the gun from shareholders to act quickly when a company encounters hard times or scandal, recruiters said.

"We're experiencing a timeframe where boards have more of a hair trigger," said Peter Crist of the executive recruiting firm Crist Associates. "It is a very difficult task to be a CEO, COO or CFO at a medium to large-cap company."

The number of CEO departures is projected to have risen slightly in 2003, after tapering off the past two years following a 16 percent jump in 2000, the year the stock market bubble burst, according to data from Crist, which tracked more than 600 top U.S. companies.

"The turnaround rate is accelerating," Crist said.

This year is ending with a spate of management changes at top U.S. companies, some embroiled in controversy but others plowing ahead on a steady course.

The list of changes includes Boeing, where CEO Phil Condit resigned under pressure stemming from an investigation of its military contracting practices. He was replaced by Harry Stonecipher, who was at the helm of McDonnell Douglas when it merged with Boeing in 1997.

In contrast, CEO Glen Barton of Caterpillar Inc., a company veteran of more than 40 years, announced he will retire in January. Barton will be replaced by James Owen, another longtime Caterpillar executive.

Despite the array of reasons offered for a CEO's departure, a common thread is the desire for fresh ideas. "Sometimes retirements are euphemisms for change," Challenger said.

A CEO under pressure often departs at year-end because companies are assessing where goals fell short of targets as they close the books on the year.

It was last December when McDonald's Corp., struggling to revive sales, named Jim Cantalupo to replace Jack Greenberg, who retired.

Wall Street analysts expect more heads to roll at struggling companies in the year ahead.

Many analysts, for example, have been surprised that Bristol-Myers Squibb Co. has not ousted its chief executive, Peter Dolan. Since Dolan took the reins in May 2001, the drugmaker's earnings have suffered amid a dearth of new drugs, a government probe into certain sales practices, a four-year earnings restatement and a questionable cancer drug partnership with scandal-ridden ImClone Systems Inc.

Retailers that underperform during the make-or-break holiday sales season are one sector that is likely to experience more management shake-ups near term.

In cases where executives were brought in as turnaround specialists, resentment sometimes breeds within the company's ranks, and it can be difficult for the change agent to assume a new role presiding over the company in an expansion mode.

"Many companies are now in that position. We'll see more of this in 2004," Challenger said.

As the economy improves and the focus of companies shifts from downsizing to growth, boards will be eager to elect CEOs who excel at developing new products and markets, he said.

When company insiders are passed over, don't expect the bypassed employee to stick around for long, recruiters said.

That could be the scenario at Kraft, where co-CEO Betsy Holden last week was removed from her position and her counterpart, Roger Deromedi, placed in charge. Or at Motorola, which last week brought in Edward Zander, a former Sun Microsystems executive, to become CEO, over Motorola President Mike Zafirovski.

Brian Lee, chief market strategist at recruiting industry consultant Hunt-Scanlon Advisors, questioned whether directors at such companies as Boeing or Delta – which recently named Gerald Grinstein, former CEO of railroad Burlington Northern Corp., to replace Leo Mullin – hit the panic button too soon.

"Are these boards being too impatient by bringing back old CEOs?" he asked. "They need to get results right away, but in the long run, that's not good."

(Additional reporting by Jed Seltzer in New York)
