CEO Firings On the Rise As Downturn Gains Steam

By JOANN S. LUBLIN

A deepening labor market downturn that cost 524,000 Americans their jobs last month is even swelling the jobless rate for chief executives.

William Watkins, ousted Monday at Seagate Technology LLC, is the sixth CEO of a publicly held company to be replaced in just the last eight days. His exit follows the departures last week of CEOs at Tyson Foods Inc., Borders Group Inc., Orbitz Worldwide Inc., Chico's FAS Inc. and Bebe Stores Inc.

Many experts view the changes as harbingers of significantly more turmoil in executive suites this year. Like other companies, these six corporations have been grappling with poor financial results, slumping stock prices and, in some cases, investor criticism.

Out the Door

An informal survey of management consultants, recruiters, investors and governance specialists pointed to several other CEOs whose jobs may be vulnerable: Rick Wagoner of General Motors Corp.; Vikram Pandit of Citigroup Inc.; Jonathan Schwartz of Sun Microsystems Inc.; Steve Odland of Office Depot Inc.; and Kenneth Lewis of Bank of America Corp. Officials at those companies said their CEOs retain the board's support or declined to comment.

CEO turnover "doubles in bad times," said Dirk Jenter, an assistant finance professor at Stanford University's business school, who recently analyzed 1,627 CEO changes between 1993 and 2001. Mr. Jenter found that CEOs are most vulnerable in a downturn when their employers' shareholder returns lag rivals.

Last year, 61 companies in the Standard & Poor's 500-stock index changed CEOs, up from 56 a year earlier, according to executive search firm Spencer Stuart. The number of such switches may increase this year, Mr. Jenter predicted. Boards typically oust CEOs a year or two after relative shareholder returns start to slip, he said.
"As bad times drag on, you begin to examine the leader's response," observed Charles Elson, a director at HealthSouth Corp. and head of the Weinberg Center for Corporate Governance at University of Delaware's business school.

Executives of corporations based outside the U.S. are leaving as well. Anglo-Australian mining company Rio Tinto PLC on Monday said Dick Evans, chief executive of its aluminum division, plans to retire and will leave the board on April 20. Norwegian electric power and aluminum producer Norsk Hydro ASA also said Monday its CEO is stepping down on March 30.

Seagate removed Mr. Watkins at the same time it announced plans to eliminate 10% of its workforce. The maker of computer disk drives warned of disappointing sales in December, and its shares have lost 80% of their value in the past year. They closed off about 16%, or 88 cents, at $4.76 in 4 p.m. composite trading Monday on the Nasdaq Stock Market. Borders and Tyson also had sharp share losses under their old CEOs. Borders shares fell about 97% under George Jones, who took over in July 2006.

The turmoil extends to senior executives below the CEO. New chief executives often replace top lieutenants to create their own team. With the recession, "this is the most volatile environment I've seen in 30 years," observes Peter D. Crist, head of Crist|Kolder Associates, a search firm in Hinsdale, Ill.

Harry Pearce, chairman of Nortel Networks Corp. and a retired vice chairman of GM, also expects more CEO departures. "There's just enormous pressure" to replace CEOs amid the tough economic climate, Mr. Pearce said.

Mr. Pearce thinks many of these changes will be ill-advised. "It's probably the worst time to make a change," Mr. Pearce said. Hiring a fresh leader during crisis "almost invites bad decisions" because a newcomer must act fast before fully grasping the business, Mr. Pearce said. He declined to comment on the future of Nortel Chief Executive Mike Zafirovski, who has been running the troubled telecommunications equipment maker since 2005.

Switching CEOs is rarely a panacea. A June 2008 Wall Street Journal survey of 30 big companies that removed CEOs between January 2005 and June 2007 revealed that the shares of those companies had declined far more often than they had increased. (The survey excluded financial-services CEOs who had lost jobs amid the credit crisis.)

Several of the CEOs considered vulnerable this year are relative newcomers who have been unable to halt declines in their employers' fortunes. Mr. Pandit was named CEO at Citigroup in December 2007, amid multi-billion dollar losses tied to the mortgage crisis. But Citigroup remains unstable. It has required two capital injections from the federal government, and analysts expect the company to report another big loss later this month.

Federal officials discussed removing Mr. Pandit as part of the second bailout, but decided that his ouster could destabilize the company, people familiar with the talks have said. Citigroup's lead independent director, Richard Parsons, said Sunday the board retains confidence in Mr. Pandit and is not considering his removal.

Bank of America's Mr. Lewis won praise last year for steering the bank through the worst of the mortgage mess, while acquiring Countrywide Financial Corp. and this year Merrill Lynch & Co. at bargain prices.
Now, some analysts question whether those deals will ultimately hurt the bank, which halved its dividend in October. B of A shares have fallen more sharply than other banks in the past month. Mr. Lewis "is under a lot of pressure," Mr. Elson said. "He's someone to watch, given the bank's (recent) performance." A bank spokesman declined to comment.

Sun has struggled to find a formula for consistent growth since the Internet boom. Mr. Schwartz replaced Sun co-founder Scott McNealy in 2006, but Sun continues to lag bigger rivals such as Hewlett-Packard Co. Sun posted a $1.68 billion loss in the fiscal first quarter ended in September, including a $1.45 billion writedown related to a 2005 acquisition. That occurred shortly before H-P reported better-than-anticipated earnings for its most recent fiscal quarter. Sun's shares fell about 75% last year; H-P's slid about 25%.

Mr. Schwartz is definitely on a hot seat, one Sun institutional investor said. But Southeastern Asset Management Inc., Sun's largest shareholder, last month said it fully backed Mr. Schwartz after Sun agreed to appoint two directors chosen by Southeastern. A Sun spokesman said its board "is fully supportive of its leadership team and strategy."

Other potentially vulnerable CEOs face longer-standing problems. Mr. Wagoner has led GM since 2000, a period in which its market share has shrunk and its shares have fallen about 94%. Some members of Congress urged Mr. Wagoner to resign when GM sought a federal bailout last fall.

Mr. Wagoner has deflected calls to quit and GM directors have backed him publicly. He still "has the support of the board," said Tony Cervone, a GM spokesman.

Office Depot lags larger rival Staples Inc., and recently halved plans for new store openings this year. Last year, dissident shareholders threatened a proxy fight, claiming that management used economic weakness as an excuse for its "persistent underperformance."

Neil Austrian, the board's independent lead director, said in a statement that Mr. Odland "is doing everything possible" to improve performance. "We are confident that we have the right management team," he added.

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CEOs Out the Door

William Watkins, ousted Monday at Seagate Technology, joins a parade of CEO’s who have departed since Jan. 5. His exit follows the departures last week of CEOs at Tyson Foods, Borders Group, Orbitz Worldwide, Chico’s FAS and Bebe Stores.

Seagate Technology replaced Chief Executive William Watkins amid a rapid deterioration in business during the downturn.
Richard L. Bond quit as CEO of Tyson Foods amid internal tensions over how to navigate the meat industry’s worst slump in decades.

Borders Group ousted CEO George Jones after disappointing Christmas sales, with the board citing the need to “more aggressively” improve cash flow and reduce debt.

Steve Barnhart resigned as CEO of Orbitz Worldwide as online travel agencies have suffered amid the weak economy.

Chico’s FAS CEO Scott Edmond stepped down after months of pressure from an activist investor to resign.
Bebe Stores announced CEO Gregory Scott’s departure after reporting poor holiday sales results.