

September 16, 2006

HOT TOPIC

Why Corporate Boardrooms Are in Turmoil

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THE MAIN EVENT

Two more top executives got the ax this past week, continuing the unprecedented period of turmoil in corporate America's boardrooms.

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Patricia Dunn was pushed out as chairman of **Hewlett-Packard** Co. as of January this past week, amid controversy over her instigation of a probe of boardroom leaks. And Peter Dolan, chief executive of **Bristol-Myers Squibb** Co., was fired by his board after a series of bunglings, including an effort to keep a generic version of the heart pill Plavix off the market.



Left: Reuters; Right: AP

Bristol-Myers's ex-CEO Peter Dolan (left), and H-P's ousted Chairman Patricia Dunn.

Those events are the latest in a string of top executives ousted at some of the nation's largest companies in recent years. The roster includes **Walt Disney Co.**, **Fannie Mae**, **Boeing Co.**, **Morgan Stanley**, **American International Group Inc.**, **Merck & Co.** **Pfizer Inc.** and more.


Corporate boards, which once served largely as rubber stamps for powerful CEOs, have become more independent, more powerful, and under more pressure to dump leaders who perform poorly. The rate of CEO succession reached 16% last year, up from 11% in 1995, according to Booz Allen Hamilton. Also public opinion of CEOs has soured -- just 16% of Americans think highly of business executives, down from 25% in 2001,

according to a recent Gallup poll.

Here's a look at some of the forces behind these changes:

Greater board independence: Enron, WorldCom and the other corporate scandals of 2001-02 led to changes in laws and regulations that gave new power and independence to boards. Last year, 83% of boards said more than half of their directors were independent -- that is, had no other relationship with the company or its management -- up from 54% in 2000, according to the National Association of Corporate Directors. Boards now more frequently meet in "executive" sessions without the CEO present as well.

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Still, most U.S. companies resist the notion of giving the chairman's title to an independent director. Fewer than 30% of S&P-500 boards split the chairman and CEO roles, according to the recruiting firm Spencer Stuart, and at most that do, the chairman is the former CEO or otherwise tied to management.

More pressure from shareholders: Shareholders have been flexing their muscles in recent years as large institutional investors, particularly public pension funds and hedge funds, have taken a more activist role. There were 1,068 shareholder proposals last year according to Institutional Shareholder Services. While down slightly from a peak of 1,082 in 2003, that is up from 747 in 2001.

MORE



The WSJ editorial board's view¹
• By the Numbers

Last year, activist pension funds and other investor advocates succeeded in winning majority support for 19% of their corporate-governance proposals, according to Institutional Shareholder Services, a proxy-advisory firm. They have also achieved a string of major victories recently. In 2004, 45% of the shares voted at Disney's

annual meeting withheld support from then-Disney CEO Michael Eisner, who was stripped of his chairman title and later stepped down as chief executive earlier than expected.

With about \$1.2 trillion under management, hedge funds increasingly are wielding their strength at major U.S. companies too. So far this year, hedge funds have already gained board seats at 70% of the 50 companies where they've made major challenges, according to Patrick McGurn at Institutional Shareholder Services -- on track to be the most successful year.

More pressure from government regulators: After Enron collapsed into bankruptcy amid an accounting fraud, regulators stepped up enforcement. In 2004, the Justice Department had charges pending against more than 60 CEOs and presidents alleging some type of corporate fraud, more than double than in 2003. This has added pressure on boards to take a zero-tolerance approach to questionable CEO behavior.

--Lauren Etter

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FACTS

In 2005, about 40% of CEOs world-wide were at retirement age -- 62 or older -- when they left office. That's down from about 66% in 1995.

In 2005, U.S. outside board directors spent 191 hours -- equivalent to about five 40-hour work weeks -- on board duties, up from 156 hours in 2003, according to NACD. In 2005 the average annual director compensation was \$136,000.

About 28% of CEOs at the nation's top 100 companies have been with the same company for longer than 25 years, according to Spencer Stuart. That's down from 64% in the 1980s.

About 97% of CEOs at top companies in the U.S. have an undergraduate degree. Of those, about 10% have degrees from Ivy League schools. About 20% have degrees in engineering -- the most common degree -- followed by business administration, liberal arts, economics and then accounting.

Last year, one in seven of the world's largest companies made a change in leadership, up from one in 11 in 1995, according to Booz Allen Hamilton. About 35% of CEOs leaving a U.S. company were forced out last year, up from 12% in 1995.

Last year, women held 14.7% of all Fortune 500 board seats, up from 9.6% in 1995, according to Catalyst, a research firm that monitors women in the boardroom. One in nine Fortune 500 companies had no women on its board.

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POINTS OF VIEW

"Accountability and responsiveness are what investors are looking for ... For a long time boards saw themselves as being a Star Chamber -- responsible to no one. Now they are learning the hard way that shareholders will hold them accountable."

-- Patrick McGurn, Institutional Shareholder Services

"After Enron 'the regulators became far more aggressive, threatening boards of directors with all kind of dire things if they didn't do certain things. What happens? The board simply takes over. And when that happens you don't have a company that is thinking about innovation or risk-taking."

-- Maurice "Hank" Greenberg, AIG former CEO

"Boards are nervously trying to do the right thing now, but like the clumsy moves of a good driver with a police cruiser following closely, boards are making some maladroitness moves as they learn to make good governance second nature."

--Jeffrey Sonnenfeld, Yale School of Management

"It used to be that it was considered somehow impolite or improper [for a board member] to ask a tough question. Now it is considered irresponsible not to ask a tough question."

--Nell Minow, Corporate Library

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BY THE NUMBERS

Top executives who have left their posts recently, their former positions and reason for leaving:



Bill Ford
 Chairman/CEO,
 Ford Motor Co.
 Left CEO position:
 September 2006
 Part of the
 restructuring plan



Tom Freston
 CEO, Viacom
 Resigned:
 September 2006
 Underperforming
 shares



Michael Eisner
 CEO, Walt Disney
 Retired:
 September 2005
 Shareholder revolt
 led by Roy Disney
 and Stanley Gold

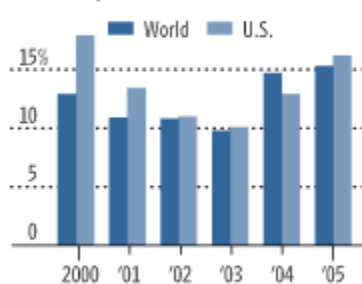


Hank Greenberg
 Chairman/CEO, AIG
 Retired as CEO:
 March 2005
 Board forced
 resignation amid
 regulatory scrutiny

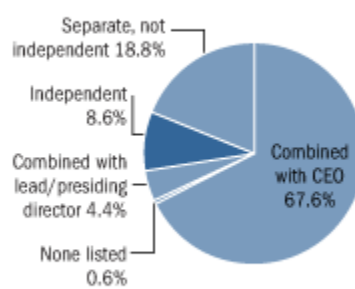


Carly Fiorina
 Chairman/CEO, H-P
 Resigned:
 February 2005
 Board concerns with
 performance and
 management

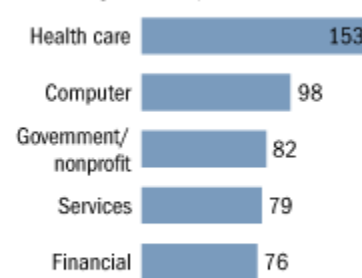
CEO departure rate¹



S&P 500 chairmen, by type



Industries with most CEO departures, 2006²



¹Based on world's 2,500 largest public companies by market capitalization; includes interim CEOs and M&A successions. ²2006 through August. Sources: Booz Allen Hamilton; SpencerStuart; Challenger, Gray & Christmas

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