Introduction

Impatient investors and unforgiving directors are increasingly pinning the blame for their corporate woes on the chief executive.

Procter & Gamble’s Durk Jager was a recent example of a high-profile executive whose crown turned to thorns amid a plunging share price and loss of confidence in 2000.

Mr Jager was, as of June 2000, the 36th U.S. chief executive to be axed in that month – an average of six top management changes every business day, according to executive employment consultancy Challenger, Gray, and Christmas.

Why is this happening?

John Challenger, chief executive, says shareholders and boards are giving their chiefs the choice of boosting the bottom line or the boot. “It’s like managing a soccer club – a couple of bad decisions and the fans will not suffer them staying. The sacking mentality is spreading like a virus,” he says.

A recent survey found that shareholders consider improving financial performance is a chief executive’s top priority. More than seventy percent want their chief executive to boost returns, compared with three percent who are more interested in long-term performance.
Darrel Rigby, a director of the management consultants Bain & Co., adds: “This is not a fad. Institutional investors are also becoming pushier toward boards of directors.”

The Sword of Damocles

The chief executives of computer companies are the most likely to be axed, followed by those managing financial services companies and industrial products. But, no sector is spared and no chief executive is invulnerable to the pressure.

The average tenure of a U.S. chief executive has halved to about four or five years during the past decade, says Challenger. But the tenure was even shorter for the incumbents of some of the United States’ most promising jobs.

Procter & Gamble’s Mr Jager lasted 17 months. Richard Huber, the former Aetna boss, was sacked after two and a half years, while Coca-Cola booted its chief executive, Doug Ivester in April after only one year. Other blue chip with a revolving door in the chief executive suite during the past year include Mattel, where the chief left after only three years, and Revlon, where the chief left after two.

Boosting investors’ expectations and failing to achieve the expected financial results is a bad omen, according to Challenger.

Recent high-profile sackings or early departure have also coincided with a long-term slide in the stocks’ share price and increasing boardroom impatience with prospects, he adds. Another danger sign is failing to sell a convincing story to the board and analysts. This could be bad news for Daimler-Chrysler’s chairman, Jurgen Schrempp, and its U.S. controller, James Donlon. The company seems to be running out of gas when the auto industry is booming. Applying the same criteria, Richard Brown, chief executive of Electronic Data Systems, the world’s number two computer services company might also be feeling uncomfortable. The stock plunged 25% on Friday.

Challenger said: “Being a chief executive is now a short-lived and very precarious job.”

… to be continued with “Jager’s Legacy to be Erased at Procter & Gamble.”

See end illustration.

Source: The Scotsman, Monday 12 June 2000, Business Section, p. 19; used with permission. Article provided by Duncan Hughes, New York.