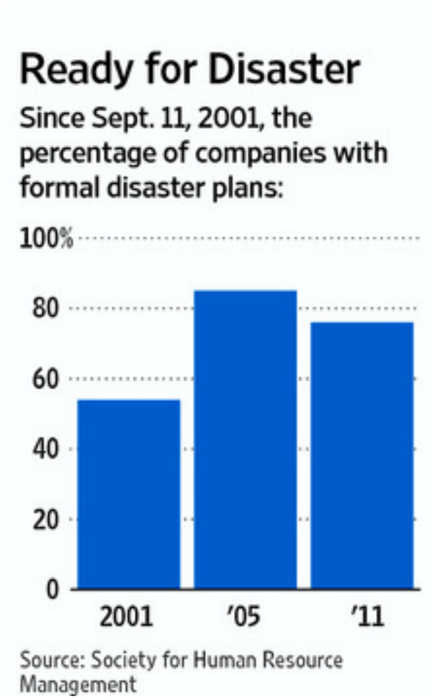
THE WALL STREET JOURNAL.
WSJ.com

MANAGEMENT | SEPTEMBER 6, 2011, 10:39 A.M. ET

Management News & Trends: Worries Linger After 9/11

Worries Linger After 9/11

Ten years after the Sept. 11, 2001, terrorist attacks, companies still don't feel secure, even though most have created formal disaster-preparedness plans.



Only one-third of companies say they are well-prepared for potential threats or disasters, a new survey of 306 companies by the Society for Human Resource Management found.

Some 76% of firms said they had disaster plans, which include measures such as employee training, business continuity plans, backup data storage and communication plans, compared with 85% in 2005 and just 54% in 2001.

—Rachel Emma Silverman

New CEO? Watch Out

Chief executives with fewer than five years at the helm are more likely to be fired for poor performance than more experienced CEOs, according to a study to be released Tuesday by the University of Miami School of Business Administration and Duke University's Fuqua School of Business.

The researchers, who analyzed the quarterly earnings of 1,725 public companies from 1996 to 2005, found that if a CEO had fewer than five years on the job, the likelihood of negative earnings performance leading to termination was between 34% and 43%. More experienced CEOs had only a 4% to 11% chance of termination.

Boards are quicker to overlook a poor quarter by longstanding CEOs because they are known entities, the study found. "Boards know less about new CEOs, so when they see negative performance, they are more likely to attribute it to the CEO's ability," says Dhananjay Nanda, a co-author of the survey and professor of accounting at the University of Miami.

Interestingly, longer-tenured CEOs in the survey missed earnings targets with the same frequency as new CEOs. The study also found that CEOs with longer tenures were monitored and evaluated less by the board of directors than new CEOs.

Michael Useem, a management professor at the University of Pennsylvania's Wharton School, says boards that have kept a CEO for longer than five years feel more invested in the CEOs and his or her strategy. "After five years, [the board's] fingerprints are on the strategies being pursued," he says. After an extended amount of time, the board is also able to rationalize a dip in the company's stock price or poor shareholder returns for a quarter by the CEO's track record of prior strong quarters, he says.

"When Jack Welch was CEO of General Electric, if he missed an earnings target it was no big deal," says Mr. Nanda.

The scenario has unfolded in the executive suite over the last few years. Former Nokia Corp. CEO Olli-Pekka Kallasvuo lasted just four years as CEO before the board replaced him with Stephen Elop last year. During Mr. Kallasvuo's tenure the mobile-phone maker suffered declines in earnings and marketshare.

Power generator Calpine Corp.'s founder Peter Cartwright was CEO for 18 years when the company missed consecutive earnings targets in 2002. He was ousted by the board in 2005; less than a month later the company filed for bankruptcy.

—Dana Mattioli

More Women on Boards

Women snagged a record high 48% of 116 new board seats in the second quarter, according to new research from Directors & Boards, a journal of corporate governance.

In the first quarter, 34% of newly elected directors were female. The previous high was 43% in the third quarter of 2009. The journal has been tracking board placements for publicly traded companies since 1994, says editor James Kristie.

"Companies are making a concerted effort to be more diverse as possible [on their boards], and that includes women," says Bonnie Gwin, vice chairman and managing partner of the North American board practice at Heidrick & Struggles. Ms. Gwin says companies view diversity as a competitive advantage.

Women still have a long way to go before being equally represented on the boards of publicly traded companies. In 2010, 15.7% of board seats at Fortune 500 companies were occupied by women, according by a study by Catalyst, a research and advisory group on women in business. It's been a slow climb. In 2005, 14.7% of board seats were held by women, according to Catalyst.

—Dana Mattioli