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THE BOARDS

As Directors Feel Their Oats, Chiefs Are Put Out to Pasture

By ALEXEI BARRIONUEVO

With the ouster of the American International Group's chief executive, Maurice R. Greenberg, the turnover at the top of American companies is starting to look like a 10-car pileup. The upheaval is the strongest sign yet that boards are reacting forcefully to changes in governance put in place to clean up the scandal-ridden landscape of the last few years.

The departures have multiplied this year, after last year's decision by Michael D. Eisner to give up his post as Disney's chairman after a shareholder revolt, and the forced retirement by Franklin D. Raines from Fannie Mae. The announcement that Mr. Greenberg would be stepping down as chief executive amid several regulatory inquiries brings to seven the number of high-profile executives who have been replaced, mostly against their will, in the last three months.

Amid a new culture of corporate openness, boards have acted to punish poor performance and ethical lapses to stem potential fallout from regulators, major customers and large investors. Their newfound vigilance stems in part from new federal rules and stock-exchange requirements that boards have more independent directors and act in a more transparent manner. The changing culture of boards themselves, after a series of ugly corporate scandals this decade, has also heightened their sensitivity to public-relations embarrassments.

That so many chief executives have been ousted amid signs of an improving economy and market shows the strength of the trend toward greater scrutiny, said Evan Scott, president of the Evan Scott Group International, an executive search firm in Philadelphia.

"This is not coincidental at all," Mr. Scott said. "Boards are flexing their muscles and beginning to take on the role they are supposed to take on, and that is very healthy for American business."

After the collapse of Enron in late 2001 and WorldCom in 2002, Congress required more vigilance by directors, auditors and other gatekeepers in the Sarbanes-Oxley corporate-overhaul law. That measure, which strengthened auditor independence and made boards more responsible for financial results, created a model of corporate governance that is "designed as a circuit breaker," said Charles M. Elson, director of the John L. Weinberg Center for Corporate

Governance at the University of Delaware. "Lately, the signal is that the governance mantra is actually working.

"The question is, Are boards getting too active? Are they pulling the trigger too quickly? I don't think so," Mr. Elson said. "They are looking at these terminations over the long term."

Changes in listing requirements at the New York Stock Exchange and Nasdaq, more institutional investor activism and court decisions that have increased directors' financial liability for their decisions have all pushed boards to be more involved. The changes have spurred a shift in corporate culture.

"The fraternal culture that characterized America's boards is undergoing a dramatic change to a culture of skepticism," said Arthur Levitt Jr., the former head of the Securities and Exchange Commission who is now a senior adviser at the Carlyle Group, a private equity firm in Washington. "The humility and embarrassment of the past few years, combined with regulation, have changed the culture of boardrooms."

Just a few years ago, board members were reluctant to challenge chief executives and their strategies. "You could go for years with crummy performance and bleed a company out of existence," Mr. Elson said. A board would do nothing until a chief executive decided it was time to go, he said.

But increasingly, executives are reluctant to serve on boards at all if they cannot have a stronger hand in calling the shots, Mr. Scott said.

The departure of Mr. Eisner, Disney's longtime chief, was a case where friction between him and a board seeking greater control after many years of passivity, led to its naming a successor. Hewlett-Packard's board was strongly behind the exit of Carleton S. Fiorina, who was deposed after she failed to produce the level of profits she had promised.

Sometimes boards are pushing chief executives to the exits in anticipation of similar moves by unhappy regulators. Mr. Raines was forced to resign once it became clear to the board that Fannie Mae's regulators at the S.E.C. and at the Office of Federal Housing Enterprise Oversight were determined to rein in Fannie.

Fear of scandal is also driving heightened scrutiny of executive performance. In the post-Enron era, cases like the ouster of Boeing's chief executive, Harry C. Stonecipher, who was forced to resign for carrying on an extramarital relationship, could become more common, said John A. Challenger, chief executive of Challenger, Gray & Christmas, a Chicago outplacement firm.

The affair came to the board's attention when an unidentified employee blew the whistle by providing some of Mr. Stonecipher's e-mail messages to the board. "As we put in these internal whistle-blowing programs, they are going to turn up every bit of dirty laundry that used to be swept under the rug," Mr. Challenger said.

Chief executives themselves, recognizing the need for perceived independence, are also backing away from involvement in the search for directors and relying more heavily on board search committees, corporate governance experts said.

Beyond the high-profile cases, top executives have been moving on in record numbers recently. Last month, public and private American companies announced 103 chief executive changes, the most for any month in four years, according to Challenger, Gray & Christmas. It was the fourth consecutive monthly increase in four years and the first time that companies announced more than 100 chief executive changes since February 2001.

As the economy continues to recover, expect more leadership changes at the top, Mr. Challenger said. Boards are looking for leaders with the technological and global vision to carry their companies through the next decade. He cited the selection by Sony's board this month of its first non-Japanese chief executive, Sir Howard Stringer, who ran Sony's American operations, as an "extraordinary event" that shows Sony's desire to be an even more globally responsive company.

"In a period of economic change, most companies are looking for visionaries who are willing to take risks and create more markets," Mr. Challenger said. "That is different from the C.E.O.'s from 2001 to 2004 who were more risk-averse and prone to keeping their heads down."

But Mr. Levitt cautioned that chief executives, especially those who resemble the "autocratic, muscular C.E.O. of the 1980's and 1990's that ruled with an iron fist," will continue to be vulnerable to being shown the exit. In this decade, successful chief executives will have more of a sense of the public interest and operate in a more consultative fashion with their boards, he said. "And staying below the radar is not a bad idea."