Business

In the Ejection Seat

Why German CEOs get fired even faster than American ones

By Thomas Schuler

Surprisingly, the United States, the country of hire and fire, is not the most perilous for CEOs. An international study explains which ones are.

Before Wolfgang Ziebart, CEO of Munich-based computer chipmaker Infineon left his company in late May, his looming departure had been a topic of speculation in business circles for weeks. "Differences over the company's business strategy" were the official reason for the separation. Insiders, however, knew about a confrontation between Ziebart and supervisory board head, Max Dietrich Kley, who allegedly accused Ziebart of failing to meet expectations.

The change at the top of Infineon is one of many this year, seemingly substantiating a trend. A study by business consultants Booz & Company claims that CEOs in Europe and in German-speaking regions in particular have to fight hardest to defend their positions. According to the study, 17.6 percent of all European CEOs had to vacate their seats during 2007. The worldwide average however was 13.8 percent.

According to Booz & Company, CEOs from the German-speaking regions are under even greater pressure: 19.7 percent had to step down, a record high, and almost twice as many as during 2006. "In doing so, Germany and Europe have disconnected themselves from the global trend," the authors of the study concluded. Both globally and in the major economies like the United States or Japan, the numbers of CEOs that leave their companies have been declining slightly since 2005.

This is the 7th such study from Booz & Company. In it, the consultants investigated the world's 2,500 largest publicly traded companies. Additionally, the 300 biggest companies in the German-speaking region were analyzed. Both the companies' performance at the time of the departure and the circumstances surrounding the CEOs' exits were included.

At first glance, the results are surprising: Isn't the United States the heartland of capitalism and therefore of a corporate philosophy of hire and fire? Obviously not, when it comes to business management.

Also incorrect is the widely held assumption that due to pressure from shareholders, managers only have two years to implement their strategies and are fired if unsuccessful. The study suggests that in reality, the power struggles take place independently from the managers' performance or success.

Some trends: The extreme pressures on CEOs in the telecommunications industry have eased somewhat. The number of exits has decreased by 10 percent from the previous year to 40 percent. Nonetheless, this is already the third time in succession that the sector is at the top of the list of the riskiest industries for CEOs. Following at a significant distance are industrials (32 percent) and IT (28).

According to the study, the strongest rise in executive fluctuation is found in the energy sector. There, the rate jumped from 0 to 21 percent within the past year. Despite the worldwide financial crisis, the situation in the banking sector is "surprisingly relaxed," according to the study. Whereas banks ranked third in 2006, they were only in 7th place in 2007.

Why are CEOs of German companies particularly imperiled? Whatever the reason, it's not because of their performance, Booz & Company says. Instead, the reason is the tighter control and the power struggles between supervisory boards and members of the executive board. Whereas CEO and chairman are two positions held by different people in Germany (and in recent years in the UK as well), in the United States, the two boards are often headed by the same person. In other words, the CEO is also chairman of the supervisory board and therefore supervises himself.

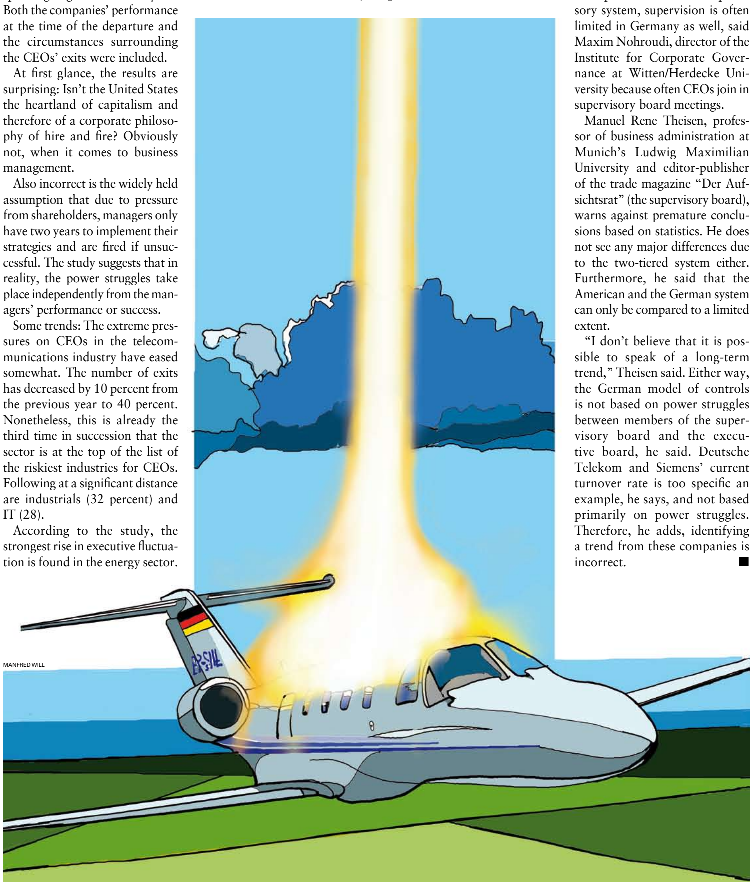
That is why in the U.S. there is often talk of the "king" of a corporation who rules with absolute power. That reduces both the number of conflicts and opportunities for checks and balances. Though criticized for many years, the model has survived.

The Booz & Company study emphasizes that European supervisory boards make more active use of their power of oversight than their international counterparts: 37 percent of all European CEOs had to step down involuntarily during the past 10 years whereas only 27 percent had to in the United States during the same period. In the German-speaking regions, the number of forced resignations rose dramatically during the past year from 3.7 to 6.3 percent. In doing so, it comprised about a third of total turnover.

Despite the two-tiered supervisory system, supervision is often limited in Germany as well, said Maxim Nohroudi, director of the Institute for Corporate Governance at Witten/Herdecke University because often CEOs join in supervisory board meetings.

Manuel Rene Theisen, professor of business administration at Munich's Ludwig Maximilian University and editor-publisher of the trade magazine "Der Aufsichtsrat" (the supervisory board), warns against premature conclusions based on statistics. He does not see any major differences due to the two-tiered system either. Furthermore, he said that the American and the German system can only be compared to a limited extent.

"I don't believe that it is possible to speak of a long-term trend," Theisen said. Either way, the German model of controls is not based on power struggles between members of the supervisory board and the executive board, he said. Deutsche Telekom and Siemens' current turnover rate is too specific an example, he says, and not based primarily on power struggles. Therefore, he adds, identifying a trend from these companies is incorrect. ■



MANFRED WILL

State of Emergency

Carriers struggle to cope with soaring fuel prices

By Jens Flottau

At last month's International Air Transport Association's (IATA) annual general assembly in Istanbul, industry leaders gave a bleak outlook for the coming months. While acknowledging the huge increase in oil prices is a problem in its own right, they argued there is hardly any time to adjust and that uncertainty about where fuel prices are headed now makes sensible planning almost impossible.

IATA Secretary General and CEO Giovanni Bisignani predicted that the industry will return to hefty losses in 2008 having only once made a profit in the past seven years (in 2007). He declared a "state of emergency" and "another perfect storm." Bisignani demanded even more massive changes to the structure of the industry if carriers want to survive.

If the analysts' consensus average oil price for 2008 of $107 is confirmed, the airline industry would have to shoulder $40 billion in additional costs per year and end up with a $2.6 billion loss for the period. At the current $130 level, airlines will post a deficit of almost $7 billion.

DIEKLEINERT/ARNOLD METZINGER

The figure masks the real extent of the problem, said IATA Chief Economist Brian Pearce because most European and Asian airlines are still relatively well protected against the spike through their hedging portfolio. The real additional cost burden at $130 is $99 billion on an annual basis, or a 20 percent increase in total costs.

The huge uncertainty about where the price of oil is headed is making matters worse. The range of expectations stretches from $200 a barrel (Goldman Sachs) to "I believe prices will come off" (Tim Clark, CEO of Emirates).

But it's not oil alone. "We are facing an unprecedented situation," Pearce said, as in parallel airlines have to deal with a "collapse in consumer confidence that we have not seen for many years." Business travel is already in decline and the tightened credit conditions make lending more difficult. "We are concerned that the downturn in the U.S. will be an extended term of weakness," he said.

The unexpected sharp rise in oil prices caught the industry after its first year of collective profitability thus upping chances that many won't have the cash cushion to withstand this for a long time. "Normally the industry has four to five years of good cash-flow to repair balance sheets but this time it was only one," Pearce said.

Strong pledges for capacity reduction appear to be the short-term answer to the new challenge. While most carriers plan to continue their prepared flying schedule for the summer season, many are looking at cuts in the fall.

That trend, initiated in the U.S. by major carriers such as United and Delta, is beginning to gain ground in Europe, too. "This autumn will be a critical juncture," said International Lease Finance Corp. (ILFC) Chairman Steven Udvar-Hazy. "The real impact (of rising oil prices) will be seen in September and October."

Air France-KLM's Chairman Jean-Cyril Spinetta has urged the industry to cut capacity, as many airlines have already seen weakness in advance bookings for economy travel since early 2008. "I hope discipline will prevail," he said. "If not, it will be a disaster for the industry."

Willie Walsh, chief executive of British Airways, has already reacted and stopped growth at BA. Management is currently going through the network on a route by route basis but Walsh has already predicted the outcome: "I see no option but to take capacity out." He also expects more bankruptcies that could help reduce industry capacity as well.

The cuts might not only be necessary to reduce operating costs but also as a result of higher fares that seem to be overwhelmingly accepted as a necessary and unavoidable measure. "Prices have to go up," Walsh said. BA has just increased its fuel surcharges as a way of upping revenues per passenger.

While many of the fare hikes appear to have gotten stuck in booming markets without a significant effect on demand, consensus seems to be that this will no longer be the case: "If we increase fares, we will see a strong impact on demand," Spinetta said. "Any business has to cover the cost of production but it is going to be extremely difficult to raise fares," Pearce added.

All else being equal, airlines would theoretically have to increase prices by 20 percent to fully make up for the fuel cost hike. Further rounds of cost cuts are also about to be implemented. "We are looking at everything, literally everything," explained Cathay Pacific's CEO Tony Tyler.

His region may however be one of the markets that could accept higher fares because economies are still growing and with them is air travel. Pearce described this as the "silver lining" in the current crisis. Demand is not falling everywhere, said Udvar-Hazy, adding that pockets of growth remain. ■