

The Naked Truth

To counter investor skepticism, some CEOs are making public what was once considered private

By JOANN S. LUBLIN

A STARTLING headline adorns the inside cover of Progressive Corp.'s current annual report. "Bare all," it blares. What follows is even more surprising: a two-page photographic spread of an 82-year-old nude man, lying on his back. "Our desire for transparency demonstrates our belief that good decisions follow from clear information," the report says.

Why the nakedness? To play up the fact that the big auto insurer releases detailed financial data monthly rather than quarterly. The unprecedented practice, inaugurated with underwriting results two years ago, was extended to income statements and condensed balance sheets this August. Yet when Peter Lewis, then chairman and chief executive of the Mayfield Village, Ohio, company, proposed monthly disclosures, neither his top two lieutenants nor outside board members backed the oddball idea.

Going Public

Maybe it isn't such an oddball idea. In the wake of numerous corporate scandals, many Americans trust big-business leaders less than they trust used-car salespeople. To reverse this systemic loss of confidence, gutsy CEOs are choosing to make public what was once considered private. They share more information with investors, rank-and-file employees and directors. A few pacesetters even reveal their own performance reviews and targets. Others encourage board members to monitor them round-the-clock through online communications systems.

Take Dick Grasso's ouster last month as head of the New York Stock Exchange. It came after a public uproar over his

MS. LUBLIN IS THE MANAGEMENT NEWS EDITOR FOR THE WALL STREET JOURNAL, BASED IN NEW YORK.

A Candid Chief

As part of its push for high performance, Planar Systems Inc., a Beaverton, Ore., maker of flat-panel displays, encourages all employees to share their successes and setbacks with one another. That includes Balaji Krishnamurthy, Planar's 50-year-old chairman, president and chief executive officer, who discloses to fellow top executives virtually all of the self-evaluation that he prepares for the board. Mr. Krishnamurthy has overseen his company's return to steady profitability and a stock price that's increased more than fourfold during his four-year tenure. But he doesn't give himself any breaks in his review. While recognizing accomplishments by himself and team members in his self assessment for the year ended Sept. 27, 2002, he also shared the following hard-hitting observations in giving himself an overall grade of B-/C+:



Julian Puckett

- "I can't give myself great marks for moving [a marketing project] along adequately."
- "I am going to have to set up some metrics to move in this direction."
- "...I should be held accountable for not having delivered [on original financial expectations for fiscal 2002]."
- "I think I failed to meet that expectation..."
- "I could do a better job of providing [my staff] with more periodic reviews and feedback."
- "I have to be the one to take ultimate responsibility."

Source: Wall Street Journal reporting

sizable and long-undisclosed compensation package. Major public pension funds are clamoring for additional transparency about how the Big Board operates and decides what it pays its management. Bowing to such criticism, interim NYSE leader John Reed disclosed earlier this month that the annual compensation and retirement benefits of six top managers totaled more than \$140 million over a five-year period.

The need for increased transparency by chiefs of public companies became evident last spring, when struggling AMR Corp. forced out its leader, Donald J. Carty. He had won labor support for huge

pay cuts at its American Airlines unit. He lost the support overnight by failing to divulge special bonuses and pension protections for senior executives.

Heightened CEO candor "is something that helps governance and helps bottom-line performance," says Richard Breeden, a court-appointed monitor for MCI, formerly WorldCom Inc. An August report by Mr. Breeden, a former head of the Securities and Exchange Commission, ordered sweeping corporate-governance changes at the telecommunications giant, driven into bankruptcy by a massive accounting scandal.

But extra openness poses tremendous

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challenges. Refreshingly frank chief executives risk disclosing valuable information to rivals, lifting expectations too high and appearing weak to shareholders.

At Progressive, stockholders used to send the share price on a wild ride every time it reported quarterly results better or worse than analysts expected. Management disliked predicting results, believing the company didn't get enough credit for consistently strong performance.

In broaching the shift to monthly reports four years ago, Mr. Lewis got no endorsements because "everybody was saying, that doesn't sound quite right," recalls B. Charles Ames, a Progressive board member and vice chairman of Clayton, Dubilier & Rice, a New York equity-investment firm. Because "nobody had ever done it before."

Directors and senior executives feared that Progressive's stock-price volatility would worsen and rivals might take advantage of more frequent peeks at its results. To their surprise, the change reduced stock volatility.

Current CEO Glenn M. Renwick, who was then CEO of insurance operations, says he soon became a strong proponent of giving investors the same monthly information that insiders use to run the business. "I can't think of any competitive advantage we've given up by doing this," says Mr. Renwick, architect of last summer's disclosure expansion. "It's governance in the sunshine."

James E. Rogers, chairman, president and CEO of Cinergy Corp., is such a fervent advocate of telling investors more that he suggested an hour-by-hour account of a typical board meeting for the Cincinnati energy company's latest annual report. Company attorneys dissuaded him. They said "we should not 'over share'" because a detailed description "would set a standard that you might be held to" in future lawsuits, Mr. Rogers remembers. For example, if individuals challenge a company action in court, they can say the decision was based on inadequate board consideration because directors deliberated much longer on a different issue described in the hour-by-hour account. "There are ups and downsides to this level of transparency," says Mr. Rogers.

Nevertheless, Cinergy prepared a highly forthcoming annual report. Mr. Rogers penned a separate letter that extensively described the board's three executive sessions and its performance reviews of directors and the CEO. The report also devoted two pages to every board member, including a full-page photo and their views on Cinergy issues.

The Ultimate Access

Being a bit more transparent can raise the question: Why don't CEOs go further? Since last spring, Fannie Mae Chief Executive Franklin D. Raines has posted answers to investors' most frequently asked questions at the Web site for the Washington-based mortgage giant. He chooses the inquiries and drafts or approves responses. "We try really hard

to answer the toughest questions out there," he says. "The only questions I wouldn't answer are ones that ask for proprietary [information]."

The Fannie Mae Web site states that the feature is "part of our continuing effort to be best-in-class in corporate governance and transparency." Yet the site doesn't provide a specific e-mail address for Mr. Raines. Why not let shareholders pepper the CEO with questions directly?

"I'm not going to reveal my real e-mail address," Mr. Raines says. "We don't want to take this CEO thing so far that I'm like a rock star and the only person they can address questions to."

A handful of business leaders take transparency to an extreme by exposing their shortcomings to colleagues. Henry McKinnell, chairman and CEO of Pfizer Inc., divulged 25 senior executives' evaluation of his performance—known as 360-degree feedback—on the drug company's internal Web site early last year. That way, every worker could learn about his strengths and weaknesses.

The McKinnell lieutenants said their boss needed to coach his immediate subordinates more, better recognize the impact of his words and actions—and hold star performers accountable when they don't exhibit good leadership behavior. Their feedback made him realize, for instance, that "I wasn't spending enough time with people working through a problem with them," Mr. McKinnell says. "Rather, I was solving it for them."

The Web site report promised that Mr. McKinnell would improve during the subsequent 12 to 18 months. "He feels like he's making progress" in all three areas cited, a Pfizer spokesman reports.

A CEO's revelation of negative feedback "makes it OK for people in the organization to adopt continuous improvement," says Mr. McKinnell, who insists that subordinates call him "Hank." "It was kind of saying, 'Vulnerability is OK.'"

Many staff e-mails complimented Mr. McKinnell for his openness. He plans to post results of his next 360-degree feedback, set for later this year. He doesn't worry that repeated exposure of his shortcomings may diminish his authority. "I'm not a wimp," he says with a smile.

Indeed, another corporate chief thinks that frankness about his personal goals and performance enhances his leadership. Balaji Krishnamurthy, leader of Planar Systems Inc., informs its 450 employees about most of his roughly 35 annual goals set by the board of the company, a Beaverton, Ore., producer of flat-panel displays. (That goals list, posted on an internal Web site, omits market-sensitive information such as financing plans.) The CEO also shares virtually all of his own yearly performance assessment with his seven top executives.

"The more you are transparent, the more people understand what's motivating management," he says. "There's less friction within the system" when credibility, trust and candor increase.

In a self-evaluation covering the year ended Sept. 27, 2002, Mr. Krishnamurthy awarded himself an overall grade of B-/C+. Among other things, he accepted blame for waiting too long to kill a flawed project. "I could have come to that conclusion one quarter sooner," he now says. Delaying the end of the multimillion-dollar project cost Planar about \$500,000.

Some chief executives' enthusiastic commitment to transparency extends to their board members as well. A Web-based communications system of BoardVantage Inc. of Mountain View, Calif., allows directors to have interactive discussions, instant access to the latest company developments and a chance to grill management at any time.

Meeting in Cyberspace

"Our board is much more engaged today than they were a year or two ago," says Larry Johnston, chairman and CEO of Albertsons Inc., a food and drug retailer in Boise, Idaho. The BoardVantage system "facilitates that," he adds. "It gives them the opportunity to be more scrutinizing—which is their job." Thanks to the system, installed earlier this year, directors already have met twice in cyberspace.

Mr. Johnston used the system to alert board members that he was flying to Irvine, Calif., one Sunday morning last June. He issued the alert minutes after he learned that a clerk wielding a samurai-style sword had killed or wounded five workers and customers at an Albertsons supermarket there. "I sent the same message to all our associates," he says.

On the other hand, many directors wish the top brass would bare even more. More than one-third of 156 board members polled late last spring said their companies don't regularly measure operational indicators that could "provide early visibility into financial health and performance." About 64% of those surveyed by BPM Forum, a Palo Alto, Calif., industry group that promotes performance-management techniques, favored greater transparency of information "to improve assurances of appropriate disclosures."

For this reason, some business leaders vow to become even more transparent. Harry M. Jansen Kraemer Jr., chairman and CEO of Baxter International Inc., a medical-products concern in Deerfield, Ill., already conducts open-ended sessions with shareholders during his quarterly earnings Webcasts. The question-and-answer sessions occasionally last two hours. Every few weeks, he sends a corporate update to 40,000 of its 52,000 employees with voice mail access. He solicits workers' feedback by publicizing his e-mail address, Askharry.com, on an in-house Web site. Now, Baxter's No. 1 executive is exploring what Fannie Mae's Mr. Raines is reluctant to do: Disclosing a personalized e-mail address for investors to reach him electronically, too.

"Transparency is all about openness, accessibility, the willingness to be in front of any group—and be available," Mr. Kraemer says. "The opportunity for good corporate governance is higher." ■