Investors Want a Right to Know About CEO Health

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How sick is Steve Jobs?

Apple Inc.'s limited disclosure about its ailing chief executive is stirring debate about whether corporate boards should be forced to tell investors more about ill leaders and CEO succession plans.

There's growing clamor for greater federal oversight of such disclosures. Mr. Jobs's recent announcement might also widen support for shareholder resolutions pushing boards to divulge detailed succession-planning policies. Apple investors will vote on one such resolution, this year's first, at the company's annual meeting on Feb. 23.

Mr. Jobs began an unexpected medical leave this month after receiving a liver transplant in 2009. His announcement said nothing about the health issue prompting his time off or when he might return. Apple directors never explained his nearly six-month previous leave, begun before the transplant. The company co-founder is a survivor of pancreatic cancer.

An Apple spokesman declined to comment beyond Mr. Jobs's Jan. 17 email to fellow employees, where he said he hoped to be back as soon as possible.

Many boards have trouble deciding how much to tell shareholders about a CEO's sudden disabling illness because many leaders prefer privacy. Securities laws require publicly held companies to disclose material information that could affect investors' decision to acquire or sell shares. Directors decide what's material, however.

Companies typically don't reveal a CEO's health problems until the condition reaches a critical stage, according to research led by Alexa Perryman, an assistant professor of management at Texas Christian University's business school.

Mr. Jobs's indefinite leave is increasing pressure on the Securities and Exchange Commission to regulate the ticklish problem. "Unless there are SEC standards for disclosures about CEO health, the recalcitrant boards won't discuss what the diagnosis or the illness is," contends Ben Heineman, a former general counsel at General Electric Co. Mr. Heineman, who now teaches corporate governance and business ethics at Harvard University's law and government schools, favors a federal rule covering any medical absence or impairment that seriously affects a business.

But SEC officials believe it would be difficult to draft a regulation covering executive-health disclosures, according to someone familiar with the situation.

Harvey Pitt, a former SEC chairman, recalls the agency debated the idea during his tenure, which ended in February 2003. "The commission resisted the temptation to lay down hard and fast rules," he says. Instead, the SEC could offer "interpretive guidance" that advises boards about

proper handling of CEO health disclosures under current regulations, suggests Anne Simpson, head of corporate governance for the California Public Employees' Retirement System, or Calpers. She says rules mandating revelations about potential risks would cover a CEO's serious illness or absence. The chief executive's health "is not just an issue for Apple," she continues. "This is an issue for all boards."

Calpers, the largest U.S. public pension fund, owns about 2.5 million Apple shares, representing less than a 1% stake.

Several other businesses, including Sara Lee Corp. and American International Group Inc., have also recently grappled with this issue.

In May, Sara Lee said CEO Brenda Barnes was taking a temporary medical leave—without providing details about its likely duration or underlying cause. Some shareholders complained about the thin disclosure. Nearly a month later, the food maker announced Ms. Barnes had suffered a stroke. She soon stepped down.

AIG CEO Robert Benmosche was diagnosed with cancer in October. He hasn't divulged what type, because he doesn't want to invite uninformed speculation about his condition, he has said. In preparing for share sales this year to end its government control, the insurer may disclose more about his condition in an offering prospectus, according to a person familiar with the matter. Mr. Benmosche has said AIG's board will decide how to proceed after it gets his medical update in February.

Apple investors next month will vote on a resolution from the Laborers' International Union that asks directors to produce an annual report on the CEO succession plan, review it annually, develop criteria for the CEO position reflecting business strategy and groom candidates.

Such steps would reassure shareholders if Mr. Jobs "can no longer continue to serve as CEO," the union says. Apple directors oppose the resolution because it "attempts to micro-manage" their actions, the proxy statement says.

Similar succession-planning proposals won an average of 31.4% of votes cast at four other concerns last year, and 10 have been submitted so far this year, reports Institutional Shareholder Services, a proxy-advisory firm.

The Apple resolution likely "will get a lot of support," predicts Charu G. Raheja, an assistant finance professor at Wake Forest University's business school who studies CEO succession. "Directors should be forthcoming about their [succession] plan."