Textron Shareholders Convert

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A group led by the Sister of Mercy persuade a majority of shareholders to agree to divide the CEO and chairman's jobs among two executives.

PROVIDENCE -- In an unusual victory, a group of nuns has succeeded in pushing aerospace giant Textron Inc. into reevaluating its corporate structure.

The Sisters of Mercy, a community of religious sisters, introduced a shareholder resolution at Textron's annual meeting yesterday that advocates separating the job of chief executive officer from the job of chairman of the board.

Despite opposition from Textron's board of directors, the resolution passed by a slim majority of shareholders -- 51.4 percent – the company announced at the meeting.

Textron said it received votes prior to the meeting for 88 percent of the outstanding shares, but that the results could change as more votes come in. Investors had until Tuesday to mail in their votes.

No Textron shareholder proposal has received a majority vote in at least 10 years, said Fred Butler, vice president of business ethics and corporate secretary for the company.

Providence-based Textron is the maker of Cessna jets and Bell helicopters. The company had sales last year of $10.2 billion and had 44,000 employees at the end of last year.

The proposal was submitted by six members of the Interfaith Center on Corporate Responsibility, which includes the Sisters of Mercy and the General Board of Pensions of the United Methodist Church. The ICCR is a 34-year-old coalition of 275 faith-based institutional investors with combined portfolios of about $110 billion. The organization seeks to integrate social values into corporate and investor decisions, according to a statement.

Unclear is whether the vote will actually lead to changes at Textron, because shareholder resolutions are not legally binding, according to Lucian Arye Bebchuk, director of the corporate-government program at Harvard Law School.

But the passage of the resolution is a rare victory for the sisters, who have tried for years to get defense contractors and other major companies to change the way they do business.

At yesterday's meeting, Sister Maureen McElroy rose to urge other shareholders to support the measure.

"We believe separation of the roles of chair and chief executive officer is a basic element of

sound corporate-governance practice," she said.

The resolution "requests" that the board establish a policy that separates the roles of the two top offices "whenever possible." The proposal would not breach any contractual obligations in effect at the time of yesterday's meeting.

An independent chairman would help Textron more effectively address challenges such as human rights, workers' rights to organize and bargain collectively, nondiscrimination in the workplace and careful use of the environment, according to a supporting statement that accompanied the resolution.

McElroy said the proposal was not a referendum on the leadership of Textron's chairman and CEO, Lewis B. Campbell.

After her remarks, Campbell said that the company opposed the resolution.

"The board . . . believes the current practice of combining the chairman and CEO roles . . . serves our best interest -- not only of Textron, but of shareholders.

"We also believe the corporate-governance structure of our board and the independence of our board and their involvement in our company make it unnecessary to have an absolute requirement to separate the roles.

"As you'll hear in a minute, though, there's a very interesting vote that's come in."

After the vote was read, Campbell said the proposal was approved. "The board will take up discussions about that proposal at one of our future meetings this year."

Overall, shareholder resolutions get a majority vote infrequently, according to some experts. "It's not something new," said Bebchuk, the Harvard Law School professor. But, he said, "you can count them on two hands."

A study by Georgeson Shareholder, a New York City-based shareholder-communications company, found there were 35 companies that had annual meetings last year in which shareholder proposals were introduced advocating for an independent chairman. None of those proposals received a majority vote, according to the study.

When there are majority votes, shareholders are "sending a very strong message," said Scott Klinger, codirector of Responsible Wealth, a Boston-based nonprofit organization that advocates for shareholders.

In the case of Textron, Klinger said shareholders "want accountability. They want a check and balance at the top of the company, not to have autocratic leadership."

But companies often don't listen to that message, Klinger said.

A study conducted by Bebchuk looked at shareholder resolutions that called for getting rid of staggered terms of board members and moving to annual elections.

"We found that in most cases . . . the board has not followed those resolutions," Bebchuk said.

He said he's not convinced that separating the CEO and chairman jobs is necessarily important. "This particular reform is one in which the jury is still out," he said. "I do think that, generally, it is a good idea to let shareholders choose the rules by which the company will be governed."

Aside from the shareholder issue, Campbell said that 2004 was a "good year" for Textron, with "solid financial results."

The results were better than the company had expected, he said. The company exceeded its cash and its cash-flow targets.

He also said the company continued to streamline its operations last year as part of a restructuring program that began four years ago. Textron has cut about 10,000 jobs in that period and closed a number of facilities.

"We're a lot more efficient at what we do," Campbell said.

Textron announced last week that its first-quarter profit more than tripled on higher aircraft sales.

Net income climbed to $126 million, or 91 cents a share, from $37 million, or 26 cents, a year earlier, when Textron had to close plants and fire workers. Sales rose 19 percent to $2.79 billion.