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How to pick your Number 2

Are you looking for a right-hand man, an heir apparent, or both? Whatever your criteria, do make sure they play your sport, says Dale Buss

By Dale Buss

<http://news.ft.com/cms/s/63260152-4f08-11d9-9488-00000e2511c8.html>

If it is true that you are only as good as the team you have around you, then few decisions could be as important as who will be your No 2. Just ask Douglas Daft, whose lack of a capable successor sullied his departure last spring from Coca-Cola.

James Cantalupo, on the other hand, thrived as chief executive of a resurgent McDonald's, in part because he had highly capable Charlie Bell as his right hand. That arrangement proved doubly fortunate for the company after Mr Cantalupo died of a heart attack in April.

But finding a capable No 2 who can effectively carry out the mission of the CEO is not easy. Worthy successors do not necessarily make the best lieutenants. And competitive issues can arise for presidents or chief operating officers eager to get their shot at running the show.

CEOs must be able to manage those tensions well. **"It's always been important how a CEO handles his second-in-command, but it's gotten more so lately because there has been a fair amount of churn at the top of so many big companies,"** says Luis Valdes, vice-president of Corporate Psychology Resources, an Atlanta-based firm that advises companies on succession.

Boards and outgoing CEOs can differ widely in terms of their criteria for an heir, including what comprises the package of crucial skills and whether the current CEO should be a template for the next. Familiarity with the current CEO has become less important than the candidate's personal ethics, as companies seek to inoculate themselves from scandal. That may be one reason companies are more often going outside to look for successors for the top jobs.

Ideally, a CEO's No 2 is a valuable right hand in running the company today as well as someone who has the ability to fill the CEO role later on. Mr Cantalupo, for instance, had promoted Mr Bell to president and chief operating officer in January 2003, so McDonald's' sales turnround did not skip a beat.

Similarly, Kevin Rollins served for several years as president and chief operating officer of Dell Computer before Michael Dell handed him co-CEO duties and finally full CEO status earlier this year.

One trick is helping an heir apparent make the crucial transition from an effective complement to the boss to being a leader with the perspective and stature to take the helm. Selecting an heir apparent "who can kick into that visionary role in a heartbeat" is perhaps the most important criterion, says Hellen Davis, president of Indaba, a Philadelphia executive coaching firm.

At the same time, the No 2 must be content with a supporting role, at least temporarily. "A good number of people who are supposedly in line for the top role will only wait so long," notes Chuck Pappalardo, managing director of Trilogy Ventures Search, an executive search firm based in Burlingame, California. Good No 2s constantly get calls from headhunters looking for CEOs. "It becomes a bit of a chess game," he says. "The CEO needs to manage the career of their second-in-command as well as their emotions."

Gradually parcelling out more duties to an heir apparent and grading his or her progress is one way CEOs can ensure that they have made a wise choice and that the transition will be smooth.

At Wild Oats Markets, a health food supermarket chain based in Boulder, Colorado, Perry Odak, the CEO, recently promoted Ed Dunlap, the chief financial officer, to the new position of chief operating officer. Mr Odak had earlier given Mr Dunlap store-operations duties and some responsibilities for planning strategy. "One thing I still need experience in is merchandising, so I'm working very closely with our merchandising staff to develop an eye for that side of the business," says Mr Dunlap, 10 years younger than his boss. "That starts to give me all the pieces to take on even greater responsibility if it's presented to me."

Building bench strength beyond one candidate is another important factor, says Mr Valdes. It can prevent the sort of catastrophic breakdown in the succession process that Coca-Cola experienced. In 2001, in a rare venture outside the executive ranks of the company, Mr Daft reached into Time Warner to pluck Steven Heyer, who was president and chief operating officer of the Turner Broadcasting unit. He promoted Mr Heyer to the roles of president and CEO in 2002. But when the company's board forced out Mr Daft early this year, they also decided to snub his heir apparent. Coca-Cola had no other reasonable internal option, so the directors looked outside. Coke's stock price, prestige and prospects plummeted until finally, in May, they lured 61-year-old bottling-company alumnus Neville Isdell out of retirement.

"It's perfectly OK to look across your ranks at the time of succession and say, 'It's not here,'" says Stephen Mader, vice-chairman of Christian Timbers, a Boston-based executive search firm. "That doesn't mean these executives aren't all very effective in their current roles, today. It just means that the next CEO isn't here." In *Good to Great*, Jim Collins, the management guru, notes that most stellar successions involve internal candidates. But boards have lately been behaving more conservatively, favouring sitting or former CEOs over groomed heirs.

The smaller the company, the greater the likelihood that a CEO will want someone directly beneath him who can both function as a capable No 2 and be in line to succeed. But finding such a management gem can be difficult. Matt Wozniak admits that he has gone through "many" No 2s trying to find a worthy one for National Shopping Service, the company based in Rocklin, California that he bought in 1990. He has finally decided that Tony Yorba, whom he hired as an executive vice-president five years ago, is the one. Mr Yorba was demonstrating the energy, vision and intelligence he had been looking for. But the clincher was when Mr Yorba completed a class in "Eskimo rolling" - a method for righting whitewater kayaks when they have capsized, with the canoeist strapped inside. "That showed me that he's got perseverance, attitude and understanding of when to let go," says Mr Wozniak, an extreme-sports enthusiast.

Some CEOs are primarily after what a No 2 can bring them today. It is possible, for example, that Scott McNealy, CEO of Sun Microsystems, the electronics group, is grooming new chief operating officer Jonathan Schwartz to take over some day. But for now, at least, he has simply found a No 2 to complement his own skills.

Jules Gardner, founder and CEO of PointRoll, an online advertising agency based in Fort Washington, Pennsylvania, wanted a first lieutenant "who could run circles around me in what they were hired for". Late last year, he hired Chris Saridakis from rival DoubleClick. "Someone who could take over the company was clearly a secondary consideration," says Mr Gardner. "Primary was quality and brainpower and someone who'd built a Dollars 250m to Dollars 300m business in the past. I wanted someone who looked at business as somewhat like warfare."

There is no single approach for successfully picking a No 2. Like so many other issues that face CEOs, it hinges on a leader's instincts about people and on an astute sense of timing. The only certainty is that it is best for everyone if a CEO faces up to the challenge, rather than allowing uncertainty to fester and fate to lead the way.

This is an edited version of an article in the December issue of *Chief Executive Magazine*.

THE ART OF SUCCESSFUL SUCCESSION: HOW (AND HOW NOT) TO DO IT

Here is a report card on how chief executive officer succession has played out or is yet to conclude at some big companies: **INSIDE JOBS**

- * Intel: as part of a long-standing succession plan, Paul Otellini, president, will in May take the reins from Craig Barrett, CEO, who will become chairman of the chipmaker.
- * Bank of America: the home-grown successor Ken Lewis took over from Hugh McColl in 2001. The bank and its stock have done well since the turnover.
- * Hyperion Solutions: four years after joining as president and chief operating officer, Godfrey Sullivan is taking over as CEO of the software company. **BOTCH JOBS**
- * Coca-Cola: a flawed transition following Douglas Daft's ousting hurt the company; Neville Isdell, the short-term CEO, has provided stability but it is not clear who the company's chief will be in the long term. **HANGING IN THE BALANCE**
- * Apple Computer: Steve Jobs' surgery for pancreatic cancer sent ripples of panic through the company and its constituencies, especially because there is no heir apparent to the CEO.
- * Colgate-Palmolive: Reuben Mark, the long-time CEO, seems to have tapped Ian Cook, newly named chief operating officer, as his successor. But this has happened just as rival Procter & Gamble is putting new pressures on the company.
- * Disney: Michael Eisner has finally agreed to retire as CEO in 2006, setting off a search for his successor. But some grumble that no good can come of Mr Eisner's continuing to hover over the process.