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C-SUITE CONFIDENTIAL

How To Choose Your No. 2

It's no small task to find someone who is content to complement you now—with the skills to take your job later.

BY DALE BUSS



If it's true that you're only as good as the team you've assembled 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 CEO of a resurgent McDonald's in part because he had highly capable Charlie Bell at his right hand. That arrangement proved doubly fortunate for the company after 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 far from being a simple equation. Worthy successors don't 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.

Succession & Failure

Here's a report card on how CEO succession has played out, or is yet to conclude, at major companies:

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's 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 be all over the map 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—or a negative image of—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 their own ranks for successors.

Ideally, a CEO's No. 2 is both a valuable right hand in running the company today as well as someone who has the clear capabilities to ascend to the CEO chair later on. Cantalupo, for instance, had promoted Bell to president and COO in January 2003, so Bell didn't skip a beat in continuing McDonald's sales turnaround. Similarly, Kevin Rollins served for several years as president and COO of Dell Computer before Michael Dell handed him co-CEO duties and finally full CEO status earlier this year.

One trick often 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.

Inside Jobs

Intel: As part of a long-standing succession plan, President Paul Otellini will take the reins from CEO Craig Barrett, who will become chairman of the chipmaker, in May.

Bank of America: Home-grown successor Ken Lewis took over for Hugh McColl in 2001. The bank and its stock have done well since the turnover.

Hyperion Solutions: Four years after joining as president and COO, Godfrey Sullivan is taking over as CEO of the software firm; predecessor Jeffrey Rodek is leaving voluntarily.

Botch Jobs

Coca-Cola: Botched transition following Douglas

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, a Burlingame, Calif.-based executive search firm. Good No. 2's constantly get calls from headhunters looking for CEOs. "It becomes a bit of a chess game," he adds. "The CEO needs to manage the career of their second-in-command as well as their emotions."

Gradually parceling out more duties to an heir apparent and grading his or her progress is one of the best ways CEOs can ensure both that they've made a wise choice and that the transition will be smooth. At Wild Oats Markets, Chief Executive Perry Odak recently promoted CFO Ed Dunlap to the new position of COO. The 58-year-old Odak had given Dunlap store-operations duties a year ago and some responsibilities for plotting strategy for the Boulder, Colo.-based health-food supermarket chain. "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 Dunlap, 48. "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, Valdes says. It can prevent the sort of catastrophic breakdown in the succession process that Coca-Cola experienced. In 2001, in a rare grab outside the vast executive ranks of the company, Daft reached into Time Warner to pluck Steven Heyer, who was president and COO of the Turner Broadcasting unit. He promoted Heyer to Coke's president and CEO in late 2002. But when the company's board forced out Daft early this year, they also decided to snub his heir apparent. Coca-Cola had no other reasonable internal option so directors went courting the likes of Jim Kilts, Gillette's CEO. 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 for the top job.

"It's perfectly okay 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*, author Jim Collins notes that most stellar successions involve internal candidates. But boards in general have been behaving more conservatively lately, favoring sitting or former CEOs over groomed heirs.

Not Betting on No. 2's

When Allen Questrom announced he was stepping down as CEO of J.C. Penney in the midst of a major turnaround, he named his No. 2, Vanessa Castagna, as his top choice. But the board passed over the heir apparent and in October named outsider Myron "Mike" Ullman III to head up the Plano, Tex., retailer.

Ullman, 57, has been out of day-to-day retail since 2001, when he resigned from LVMH Moët Hennessy Louis Vuitton due to a spinal cord injury. But he was chosen for his top-executive experience at Macy's in the mid-'90s and at LVMH later on. "[The board] wanted the experience of a CEO," Questrom said the day after the announcement.

In other words, the board didn't want to take any chances—not even on Castagna, a seasoned second-in-command who ran



Daft's ousting hurt the company; short-term CEO Neville Isdell has provided stability, but it's not clear who Coke's chief will be long term.

Delta Air Lines: CEO Leo Mullin "retired" late last year amid a flap over his compensation and was replaced by two board members. The lack of a ready successor has not been helpful.

Hanging in the Balance

Apple Computer: CEO Steve Jobs' surgery for pancreatic cancer sent ripples of panic through the company and its constituencies, especially because there is no heir apparent.

Colgate-Palmolive: Long-time CEO Reuben Mark seems to have tapped Ian Cook, newly named COO, as his successor. But Mark has done so just as rival Procter & Gamble is putting new pressures on the company.

Disney: Beaten-up CEO Michael Eisner finally has agreed to retire in 2006, setting off a search for his successor. But some grumble that no good can come of Eisner's continuing to hover over the process.

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. Two years ago, CEO Patrick Flood selected Kevin Race as the No. 2 for HomeBanc, an Atlanta-based financial company, because his skills complemented Flood's and because the boss sniffed a possible successor. "Ideally, two plus two should equal five in these situations," Flood says. And it has worked out: Among other things, Flood says that Race gave him the confidence to take the company public earlier this year.

But finding such a management gem can be difficult. Matt Wozniak admits that he's gone through "many" No. 2's trying

Penney's stores, catalog and Internet operations, and who Questrom was clearly grooming for the job.

The J.C. Penney board is not alone in its play-it-safe mentality, says Peter Crist, president of executive search firm Crist Associates, which was not involved in the search. "Given our risk-averse environment today, boards need the comfort in a CEO selection process that Day 1, there's little risk," he notes. "When you get into risk aversion in my world, time, tenure and a safe pair of hands tend to rule the day."

The question is, at what price safety? And is the strategy actually less risky? Investors clearly were not wowed by the decision at Penney; the stock fell \$2.03, or 5.4 percent on the news that Ullman, and not Castagna—who had reportedly inspired confidence among analysts—was going to be running the show. And less than three weeks after the change was announced, Castagna quit, as investors feared, which means the company has lost a chief architect of the turnaround. Ullman will have to do without her expertise, and likely will not enjoy a running start, as Castagna might have. He'll have to prove himself and nurture relationships with investors before they'll trust his stewardship. That's the shorter-term risk. Looking further out, companies that profess a desire to cultivate top talent but ultimately tap outsiders for the senior jobs will have a tough time developing real bench strength.

Eventually, Crist says, like all trends, the pendulum will swing back "once we get into a zone where Eliot Spitzer isn't the most sought after Halloween costume." A severe shortage of talent in the top ranks will also increase boards' risk tolerance, he adds.

Meantime, the current culture of hedging creates an opportunity for boards willing to make a strategic bet on a passed-over, but proven No. 2 like Castagna and installing her at the top.

—C.J. Prince

and someone who'd built a \$250- to \$300-million business in the past. I wanted someone who looked at business as somewhat like warfare."

Experts differ on how much to disclose about succession plans. Some recommend candidness. "If the CEO is openly and consciously making the decision, it mitigates conflict beneath him and helps the whole process of planning for it," says Carl Robinson, principal of Advanced Leadership Consulting in Seattle.

Others forswear the early naming of a successor. "Once you identify someone as heir apparent, it puts undue pressure on the anointed one and discourages those who haven't been anointed," says Robert MacDonald, chairman and former CEO of Allianz Life Insurance of North America in Minneapolis.

In January 2002, MacDonald called his superiors at Germany's Allianz Group and told them of his intention to retire. A few weeks later at a company meeting, MacDonald announced long-time CFO Mark Zesbaugh, 37, as his successor. "I said I was retiring, introduced Mark, walked out the door and didn't come back for months," recalls MacDonald, 59, who took the title of chairman. "That was the best thing I could do for Mark and the company."

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

to find a worthy one for National Shopping Service, the Rocklin, Calif., company that Wozniak bought in 1990. He's finally decided that Tony Yorba, whom Wozniak hired as an executive vice president five years ago, is the one. Yorba was demonstrating the energy, vision and intelligence Wozniak was looking for. But the clincher was when Yorba completed, with Wozniak, a class in "eskimo rolling," a method for righting whitewater kayaks when they've been turned upside down in the water, with the kayaker strapped inside. "That showed me that he's got perseverance, attitude and understanding of when to let go," says Wozniak, an extreme-sports enthusiast.

Some CEOs are primarily after what a No. 2 can bring them today. It's possible, for example, that Sun's Scott McNealy is grooming new COO Jonathan Schwartz to take over someday, but at least for now, he's simply found a No. 2 to complement his own skills.

Jules Gardner wanted a first lieutenant "who could run circles around me in what they were hired for," says the founder and CEO of PointRoll, a fast-growing Ft. Washington, Pa.-based online-advertising agency. Late last year, he hired 35-year-old Chris Saridakis from rival DoubleClick. "Someone who could take over the company was a clearly secondary consideration," says Gardner, 44. "Primary was quality and brainpower

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