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### Coke Hunts Outside for Chief As No. 2 Heyer Draws Some Flak

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#### Abstract (Article Summary)

Don Knauss, president of Coke's North America retail division, said the unit's goals remain aggressive under Mr. [Steven J. Heyer]. While Mr. Heyer has run the risk of "stepping on toes," Mr. Knauss said, Coke employees are enthusiastic about the direction he has provided. "I've seen [Steve] bring a lot of energy, curiosity and good listening ability to the business," Mr. Knauss said.

One major distraction for Mr. Heyer and Coke began to take shape about a year ago, when Matthew Whitley, a Coke finance manager, sent Mr. Heyer an e-mail with an attachment describing several instances of alleged fraud within the company. Mr. Heyer never responded, and Mr. Whitley was laid off two months later. He took his allegations public last May in a wrongful-termination lawsuit. Federal prosecutors and securities regulators are investigating his claims of fraud.

Playing a key role in determining the next leader of Coke will be Donald Keough, the retired Coke president who has remained a power broker at the company and rejoined the board last week. Mr. Keough, 77, helped bring Mr. Heyer to Coke and he's on the board committee conducting the search for Mr. [Douglas Daft]'s replacement.

#### Full Text (1175 words)

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In less than three years at Coca-Cola Co., Steven J. Heyer has shaken up a struggling corporate giant and added some much-needed new fizz. But last week, when Chairman Douglas Daft announced his plans to step down, the board decided that Mr. Heyer, the current No. 2, might not be the man it wants in charge.

While few question the former entertainment and advertising executive's dedication and intelligence, directors wonder whether he fits their vision of a world-class leader who will not only pilot the company -- with \$21 billion in revenue last year -- to new heights but also embody the benevolent image of its flagship brand.

To many board members, the ideal Coke chairman and CEO is a visionary who commands admiration, delegates easily and communicates well with Coke's 50,000 or so employees and the public.

Blunt, assertive and at times acerbic, Mr. Heyer strikes many observers as a much-needed tonic in Coke's staid corporate culture. But some company insiders criticize his sharp tongue and what they see as self-promotion. Some of their concerns have filtered back to board members, contributing to questions about whether the 51-year-old executive has the makings of the top-notch chief they envision, according to people close to the company.

The result: last week's surprise announcement that Coke would conduct its first-ever outside search for a new top executive, with Mr. Heyer as the sole internal candidate. Mr. Daft, the current chairman and chief executive, said he would retire at the end of the year. Until the announcement, many had thought Mr. Heyer had locked up the top job.

Getting the formula right is crucial now for Coke, which has lacked a strong, visionary chairman since the death in 1997 of Roberto Goizueta, who helped build the company into a global powerhouse. Throwing open the top job plunges the company's far-flung operations into uncertainty at a time when its fortunes seem to be improving. But led by powerful directors such as investor Warren Buffett and investment banker Herbert Allen, the board is betting the risk will be worth it if Coke can find a chairman and chief executive who can lead the company for years to come.

Mr. Heyer, through a company spokeswoman, said yesterday that "as the initiatives begun under Doug Daft's leadership continue to bear fruit, we'll have a stronger company, generating greater value for shareholders, and that is the yardstick against which I am ready to be measured." Mr. Heyer declined to comment further on any aspect of this article.

Mr. Heyer could still get the nod. Board members praise his work, even if they harbor reservations. They view him as a disciplined executive who works well with major bottlers and key customers, who has hired highly qualified outsiders and who has improved accountability. "We think Heyer is great, but we don't know what else is out there," said James B. Williams, a longtime Coke director and retired chairman and CEO of SunTrust Banks Inc.

Mr. Heyer was greeted as a breath of fresh air when he arrived at Coke in April 2001 from Time Warner Inc.'s Turner Broadcasting System. Handed a wide range of responsibilities, from marketing to new business development and later oversight of Latin American operations, he made changes big and small. Bucking Coke tradition, he kept meetings short and refused to communicate by voicemail, equipping staff with Blackberry wireless devices instead. Mr. Heyer was instrumental in crafting a strategic course outlining new product introductions and ways to boost profit from beverage sales. He ditched a lackluster ad campaign for Coca-Cola Classic and fostered one that earned better reviews.

Investors credit him with putting Coke back on track. Many fear now that the management uncertainty created with the search could halt momentum from improved advertising, successful new drinks such as Sprite Remix and Vanilla Coke, and recent turnarounds in Germany and Brazil.

"Steve's directness and assertiveness were very foreign to Coca-Cola's culture," said Andrew Conway, analyst at Credit Suisse First Boston. "What Steve has brought is a dose of reality."

Maybe too big a dose in some cases. While careful to publicly defer to Mr. Daft and portray himself as one member of the management team, he has been known to privately deride fellow executives to others, using terms such as "idiot" or "moron."

One pivotal test for Mr. Heyer will be the company's results in North America. He recently took direct control of the company's largest operating unit and now finds himself under even greater pressure than before to turn it around.

But it may be easier for him than it was for his predecessor, who had reported to Mr. Heyer but was dismissed late last year. In a meeting last month at a downtown Atlanta hotel, Mr. Heyer told the top 300 managers in North America he was lowering the unit's annual growth target for operating income.

To some within Coke, this appeared to be Mr. Heyer looking out for himself -- lowering the bar to give himself a better chance of success and improve his standing with the board. Other managers felt Mr. Heyer was setting more attainable goals that could boost employee confidence.

Don Knauss, president of Coke's North America retail division, said the unit's goals remain aggressive under Mr. Heyer. While Mr. Heyer has run the risk of "stepping on toes," Mr. Knauss said, Coke employees are enthusiastic about the direction he has provided. "I've seen Steve bring a lot of energy, curiosity and good listening ability to the business," Mr. Knauss said.

One major distraction for Mr. Heyer and Coke began to take shape about a year ago, when Matthew Whitley, a Coke finance manager, sent Mr. Heyer an e-mail with an attachment describing several instances of alleged fraud within the company. Mr. Heyer never responded, and Mr. Whitley was laid off two months later. He took his allegations public last May in a wrongful-termination lawsuit. Federal prosecutors and securities regulators are investigating his claims of fraud.

Some within Coke have faulted Mr. Heyer for failing to act quickly when the whistleblower stepped forward. Mr. Heyer has said in court documents that he has no recollection of seeing the e-mail attachment.

Playing a key role in determining the next leader of Coke will be Donald Keough, the retired Coke president who has remained a power broker at the company and rejoined the board last week. Mr. Keough, 77, helped bring Mr. Heyer to Coke and he's on the board committee conducting the search for Mr. Daft's replacement.

According to a person close to the company, some potential candidates that Coke directors admire are Andrea Jung, head of Avon Products Inc.; David C. Novak, chairman and CEO of restaurant chain Yum Brands Inc.; and James M. Kilts, chief of Gillette Co. Mr. Buffett is a major shareholder in Gillette.

A Gillette spokesman said yesterday that Mr. Kilts "has not indicated that he's going to do anything but make Gillette the best consumer-products company in the world." Spokesmen for Avon and Yum Brands couldn't be reached late yesterday.

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