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Coke: Time For A Shakeup; Letting an outsider step in as CEO could breathe life into an insular culture

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Author(s): Dean Foust

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Full Text (730 words)

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To: Board of Directors, Coca-Cola

Re: Your CEO Search

I've got to hand it to you. No board in Corporate America is stacked with more heavy hitters: Warren E. Buffett, Herbert A. Allen, Peter V. Ueberroth, Barry Diller, former Senator Sam Nunn, and that's just the start. But for all your accumulated wisdom, the announcement on Feb. 19 that Chief Executive Douglas N. Daft would retire by yearend -- five years since he succeeded the embattled M. Douglas Ivester -- threw Wall Street for a loop. And it gave Coke its second succession crisis since 1999.

Clearly, you have to do a better job of picking the next CEO. So with all due respect to the savvy in your boardroom, here's a three-part plan for how to structure one of the most high-profile searches in recent history.

GO OUTSIDE. In the 85 years since the Woodruff family bought control of the company from founder Asa Candler, Coke has always promoted from within. That's remarkable in this age of short investor attention spans. The temptation now is simply to give anxious bottlers and investors the continuity they seek by promoting Coke President Steven J. Heyer to the top job. To his credit, the former Turner Broadcasting System Inc. executive has brought energy and fresh thinking to almost every assignment he has handled in his three years with Coke -- everything from accelerating new-product development to revamping Coke's languid marketing (BW -- Mar. 1).

But while Heyer may well one day be a star CEO, he's not ready yet. It's no secret that his confrontational style, including his habit of belittling other executives and staffers, has raised questions about whether Heyer has the requisite leadership capabilities. What's more, going with Heyer would do little to improve morale at Coke, which has had a fractious environment ever since CEO Roberto C. Goizueta died in 1997. As it stands now, the various Daft, Heyer, and Ivester factions inside the Atlanta headquarters make the place a "house of mirrors," as one former Coke executive puts it.

BE BOLD. Whoever gets the job will have their work cut out, given the demoralizing endless restructurings, a divisive racial discrimination suit, and the effects of poor marketing. But the primary requirement for a new CEO is someone who can bring back the marketing magic and Camelot-like atmosphere that existed in the 1980s and 1990s. Rather than another financial type, like Ivester, Coke needs a CEO who can make Coke's products seem relevant again in an era when loyalties to older brands are waning and consumers are drifting to such disparate choices as Starbucks, Evian, and Red Bull.

Given the factions inside Coke, you would be well-served to go for a CEO who brings the stature of, well, Goizueta. Why not try to lure 61-year-old Louis V. Gerstner Jr. out of semi-retirement? He certainly proved at IBM that he can reenergize a tired and insular corporate culture. Gerstner could stick around for three years righting the ship while Heyer gains some seasoning. For a longer-term solution, there's 3M's W. James McNerney Jr. He understands brands, and his earlier experience at McKinsey & Co. should have trained him on how to effect change without destroying the things that make Coke great. Two candidates who have shown that they know how to revive aging brands and make them relevant in a changing world: Robert A. Eckert of Mattel Inc. and Andrea Jung, the CEO of Avon Products Inc.

BACK OFF. Once you've made your pick, don't second-guess your new leader. You did that right off the bat with Daft, vetoing his bid for Quaker Oats Co. -- and its coveted Gatorade brand -- over the price. It was a setback from which Daft, an unlikely choice for CEO to begin with, never really recovered. While some of you argued in a recent Harvard case study that the handling of the Quaker deal may symbolize a "new governance style" -- CEOs bring ideas, boards decide -- it's telling that Daft has told others that he took away another lesson: CEOs shouldn't solicit opinions, but should give directors a plan. Looking at PepsiCo Inc.'s success with Gatorade, analysts now think that Daft was right. All the more reason to appoint someone who already has gone through CEO training. That way, you won't be doing another search five years from now.

Credit: Dean Foust

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