

Theory & Practice
CEO Can Mend Division
Caused by Race to Top
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August 7, 2006; Page B1 of the Wall Street Journal



Jeffrey B. Kindler

Less than two hours after **Pfizer** Inc. named him chief executive last month, Jeffrey Kindler reached out to the disappointed losers in the highly visible 18-month succession battle.

Over the next two days, Mr. Kindler chatted by phone several times with Karen Katen and David Shedlarz, his inside rivals to lead the world's biggest drug concern, people familiar with the situation say. "I need your help. The company needs your help," Mr. Kindler told each executive, according to an informed person.

That was a smart move, management experts say. A CEO horse race can divide, disrupt and demoralize a business as internal candidates jockey for the top job. After directors choose a new leader, the passed-over prospects may resign or try to undercut the victor.

Horse races are "universally a bad thing and the opposite of teamwork," argues David Nadler, chairman of Mercer Delta Consulting in New York. A recent study by Mercer Delta and the National Association of Corporate Directors recommends that companies avoid horse races such as Pfizer's, where the company appointed three vice chairmen in February 2005, seeking a successor to Henry "Hank" McKinnell.

Nonetheless, leadership specialists say that new chiefs can mend succession rifts and retain valued, vanquished contenders. Among the tactics they suggest: Offer extensive support for bypassed colleagues, ensure they have substantial roles, and offer financial inducements to stay.

Some departures are inevitable. The two runners-up to succeed John Welch Jr. at **General Electric** Co. each accepted CEO jobs elsewhere within nine days of Jeffrey R. Immelt's selection in November 2000.

But GE minimized additional defections by naming three executives as backups for the front-runners five months earlier. Those three executives subsequently landed bigger jobs and remain at GE. Nitin Nohria, a Harvard professor of business administration, says a newly appointed chief should personally reassure the key staffers of the runners-up that "he's committed to them."

To retain former rivals, a newly promoted CEO should praise them publicly as well as privately, recommends Matt Paese, a vice president at Development Dimensions International, human-resource consultants in Pittsburgh. "Get the attention off yourself," he says.

Pfizer's intensely watched horse race polarized staffers. Days before outside directors promoted Mr. Kindler, they received an anonymous letter criticizing his leadership style.

Last Monday, his first workday as CEO, Mr. Kindler sent an email to each of the company's roughly 105,000 employees praising Ms. Katen, Mr. Shedlarz and Mr. McKinnell for contributing "so much to the growth and success of Pfizer."

On Wednesday, Mr. Kindler, Ms. Katen and Mr. Shedlarz held a 90-minute conference call with senior managers "to show unity. Everybody [in management] understands [Ms. Katen and Mr. Shedlarz] are hurt and they're a little shaky and they could get offers and walk out millionaires," the informed person says. During the call and at sessions with other staffers, a Pfizer spokesman says, Mr. Kindler pledged to put "people in the best possible position to succeed." The spokesman declines further comment.

Mr. Kindler, 51 years old, joined Pfizer in 2002 as its top lawyer. By contrast, Ms. Katen and Mr. Shedlarz have spent their entire careers at the drug maker. Ms. Katen, 57, heads the human-health group, Pfizer's most important unit. Mr. Shedlarz, the 58-year-old former finance chief, is well known on Wall Street. "I love this company," each wrote in separate company-wide letters last week. Neither missive praised their new leader, however. Ms. Katen acknowledged she felt "personally disappointed" by the board's decision.

Ms. Katen has far more operational experience than her new boss, and directors briefly considered naming her president under Mr. Kindler, the informed person says. Other board members favored giving Mr. Shedlarz the presidency. The Pfizer board chose not to name either immediately because they want a hands-on CEO, according to people familiar with the situation. Directors also felt that Mr. Kindler should have free rein "to put together a very strong management team," another knowledgeable individual reports.

Experts say victors in CEO races also must go beyond rhetoric to substantive actions. That's what Roger Enrico did after he won a four-way CEO succession contest at **PepsiCo Inc.** in early 1996.

"Our board was skeptical that we would be able to retain any of the [other] three," he remembers. So he quietly sought Pepsi board seats and expanded management roles for his former internal rivals. Pepsi announced all the changes before he assumed the CEO role. The moves showed "I was going to share leadership," Mr. Enrico explains. "It wasn't going to be me telling them every day what to do."

Christopher A. Sinclair, put in charge of Pepsi's world-wide beverage business, lasted only four months, citing the strains of frequent travel. But the other two stayed. Craig Weatherup was named Pepsi president, and he later ran **Pepsi Bottling Group Inc.** after Pepsi spun off the unit. Steven Reinemund led Pepsi's snack business and ultimately succeeded Mr. Enrico as CEO in April 2001.

Mr. Enrico says he typically consulted Messrs. Weatherup and Reinemund on major strategic shifts. Collaborative decision-making helps "keep people of that stature and value," he says.

For his part, Mr. Weatherup says, "I always felt like a peer to Roger. ... There was mutual respect."

Pepsi also employed another tactic to keep Messrs. Weatherup and Reinemund around: "golden handcuffs," or big equity grants that make it costly for executives to leave. In 1996, Pepsi gave Messrs. Weatherup and Reinemund more than one million stock options apiece, most of which couldn't be exercised until 2004, an unusually long term.

Golden handcuffs may not work at Pfizer. Both Ms. Katen and Mr. Shedlarz are being wooed by other companies, associates and recruiters say. The executives will accept offers to be CEOs elsewhere "regardless of the package Pfizer puts together," predicts Mark M. Reilly, a partner at 3C-Compensation Consulting Consortium in Chicago.

"I think both could be recruited away," concedes Stanley Ikenberry, Pfizer's lead outside director. He and fellow board members "are very attentive to these [retention] issues," he adds, "but we aren't going to micromanage them."

Mending Fences

Leadership experts offer this advice for retaining passed-over CEO candidates and repairing rifts created by internal horse races:

- **Display support** for bypassed colleagues privately and publicly.
- **Give them highly visible roles**, especially inside the boardroom.
- **Enlarge** their managerial duties.
- **Offer "golden handcuffs"**—such as equity grants that can't be cashed in for several years.
- **Pay extra attention** to key deputies of runners-up.
- **Eradicate factions** by transferring some staffers from one finalist's unit to another's.

Source: WSJ research