CASE STUDY

SIGMA® ASSESSMENT SYSTEMS INC.

How McDonald's Got CEO Succession Planning Right

Last year, in the United States alone, over 1,600 CEOs left their position. This exceeds the 1,257 CEOs who exited in 2008 during the Great Recession and is the highest turnover recorded since outplacement firm Challenger, Gray & Christmas, Inc. began tracking CEO departures in 2002.[1]

CEO succession is inevitable. The question isn't whether your leader will leave, the question is how well prepared your company will be when the time comes. Some CEO transitions are predictable and controlled, others occur out of crises and necessity. The latter can have detrimental impacts on your organization. Studies show that large companies who underwent forced succession in recent years would have generated an estimated US $112 billion more market value in the year pre- and post-turnover if CEO succession had been planned for.[2]

> What is astounding is that McDonald's not only survived the loss of two CEOs in less than a year, the company then went on to attain what Fortune magazine called a 'Golden Age for the Golden Arches.'

Although many companies struggle with leadership transitions, others use succession planning to execute change strategically and with grace. McDonald's CEO transition in the early 2000s is an exemplary case of how a company can get succession planning right.

THE **PROBLEM**

McDonald's is one of the world's largest and most successful food service retailers. The franchise has over 36,000 restaurants and operates in over 100 countries worldwide.[3] But McDonald's wasn't always this successful. In 2002, price wars in the fast-food industry forced the company to close underperforming restaurants and incur a multi-million dollar charge to save money on job cuts.[4] The board brought James R. Cantalupo out of retirement to lead the subsequent revitalization effort, but in 2004, Cantalupo died suddenly of a heart attack. Six months later his successor, Charles H. Bell, resigned after becoming terminally ill.[5]

How did a struggling company survive the loss of two CEOs in less than a year? They had a third CEO who was ready to rise to the occasion.

WHAT **HAPPENED**

After Bell's cancer diagnosis and subsequent resignation, James Skinner took on the role of McDonald's CEO. The company successfully continued the turnaround Cantalupo initiated 16 months earlier, and Skinner brought about a new age of profitability. McDonald's share prices more than tripled, reaching an all-time high of $102.22 per share, up from only $12.82 in 2003. Same-store sales increased during each of the seven years of Skinner's tenure, and the company grew at an annual rate of 5%.[6] Among other awards Skinner was named "CEO of the Year" by *Marketwatch*, "2007 Executive of the Year" by *Restaurants & Institutions*, and "2009 CEO of the Year" by *Chief Executive*. He also received the Congressional Medal of Honor Foundation Award, and the Navy's Lone Sailor Award.[6]

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What was the key to Skinner's success as CEO after such turbulence in McDonald's senior leadership? The answer lies in the company's exemplary succession planning.

ABOUT **MCDONALD'S**

The McDonald brothers, Dick and Mac, originally wanted to enter the movie business. They moved from New England to California to pursue new opportunities, but after failing in the film industry they settled for success operating drive-in restaurants. In 1948, Dick and Mac introduced the Speedee Service System at their San Bernardino location, featuring a limited menu of $0.15 hamburgers, shakes, and fries. It was an immediate success.

Six years later, in 1954, Ray Kroc joined the McDonald's brothers as their franchise agent. Kroc opened the first restaurant for McDonald's System Inc., the predecessor of McDonald's Corp. In 1961, he acquired the rights to the McDonald's company for $2.7 million, and his vision was to establish 1,000 McDonald's restaurants across the US. Today there are over 36,000 McDonald's restaurants in over 100 countries around the world.

PLAN TO WIN[10]

"Plan to Win" is the turnaround program launched in 2003 to address McDonald's period of unprofitability. The plan focused on three essential components for success:

1. Operational Excellence
2. Leadership
3. Marketing and Innovation

The company changed its mission statement from "The world's best quick service restaurant" to "Being our customer's favorite place and way to eat." They invested more in food, service, ambiance, and customer satisfaction. They opened for early breakfast and late-night hours, and today over a third of all restaurants are running 24/7. The plan was an incredible success, boosting profits, increasing sales by 87%, and tripling stock prices.

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FUN **FACTS**

- McDonald's invented the little white condiment cup! It was originally known as "The Dunk Cup" and was created by Southern California McDonald's franchisees Don and Enid Dunkleman after customers kept requesting ketchup with their fires. The dunk cups were prepared in the morning and placed in the refrigerator until a customer requested ketchup. Originally, The Dunk Cups were tiny drink cups with plastic drink lids. Each cup cost three cents or a nickel, but they were soon provided free of charge. Ketchup packets were then introduced in 1968 to accommodate orders to-go, and The Dunk Cup was soon commercialized as the little white condiment cup we know and love today.
- Within a year of introducing their Premium Salads platform, McDonald's became the world's largest salad retailer.[10] In addition to their hamburgers, shakes, and fries, McDonald's now offers multiple bacon, chicken, and side salads.
- Every time you buy a Happy Meal, a donation is made to Ronald McDonald House Charities ® (RMHC) Canada. RMHC helps families stay together when their children are in the hospital, providing overnight stay, meals, and programming. Each year RMHC provides over 2.5 million stays, which save families over $930 million in meals and lodging.[11] RMHC is run almost exclusively by volunteers, and operates in more than 65 countries and regions around the world.

HOW **THEY GOT THERE**

McDonald's began prioritizing its succession pipeline six years before Skinner became CEO. Charles Bell, Cantalupo's initial successor, was the first to benefit from this process. Bell was Cantalupo's President and Chief Operating Officer, so he was the natural successor after Cantalupo's death. But Bell had also been proactively trained to take on the role. In 2003, when Cantalupo came out of retirement to lead "Plan to Win", he immediately had Bell begin shadowing him.[7] Bell started his career at McDonald's in customer service when he was just 15, and over the following decades he rose through the ranks and held several international positions.[7] This experience, coupled with Cantalupo's mentorship, was what prepared him to take on the role of CEO in 2004.

But Bell wasn't the only successor Cantalupo was grooming, and a good thing too, because James Skinner had to take on the role much earlier than expected. Like Bell, Skinner's career with McDonald's came from humble beginnings. He never graduated college, spent 10 years in the navy, then started working for McDonald's in 1971 as a manager trainee. Over the course of 33 years Skinner progressed from flipping burgers to Vice Chairman.[8] Alongside Cantalupo and Bell, Skinner was a part of the "Plan to Win" turnaround program launched in 2003. Unbeknownst to him at the time, Skinner's participation in this strategy and execution was what would prepare him to take Bell's place as CEO less than one year later.

Skinner experienced the benefits of succession planning first-hand, so after his appointment he continued to develop McDonald's succession planning process. He built a corporate culture of "[attracting] and [retaining] the best talent,"[5] and held on-site leadership development facilitated by the company's executives themselves. One of Skinner's core management beliefs was that leaders should always be grooming at least two potential successors – "one ready now, one ready future" – with future candidates preparing to take on the role within two years. This concept of bench development is what allows companies to effectively navigate forced succession, particularly when more than one CEO exits unexpectedly, as was the case for Skinner himself.

Today, McDonald's is one of the world's largest and most successful food service retailers, earning over US$21 billion in annual revenues worldwide.[9] This success can only be attributed to the company's deep and well-developed leadership bench. If Bell had not been prepared to replace Cantalupo, and Skinner to replace Bell, McDonald's may not have made it past 2004. But they did, and what followed was an unprecedented "Golden Age for the Golden Arches."

And that's how McDonald's got CEO succession planning right.

KEY TAKEAWAYS

1. **HAVE A PLAN** Succession planning might not let companies control when a leader leaves, but it allows management to prepare for how the transition will occur. "*It's a lot easier to put the train on the track than to find the track in the first place*" – *Dennis Lombardi, EVP, Technomic Inc.*[7]
2. **HAVE A BACK-UP PLAN** Leadership benches must be both wide (successors for every position) and deep (at least two people being groomed for each position). This type of planning enables companies to respond when multiple unexpected departures occur.
3. **DEVELOP YOUR TEAM** Being able to promote an insider allowed McDonald's to retain their mission and vision. The "Plan to Win" would likely have been abandoned in favor of a different strategic path if a new CEO was sourced externally.

HOW SIGMA CAN HELP

Like McDonald's, you can get succession planning right. We're here to help. Over the last 50 years SIGMA has worked with more than 8,500 private and public organizations to develop people potential and increase organizational effectiveness. We provide full-service succession planning, custom consulting, and a range of templates and resources. We also offer a number of succession planning workshops. To learn more about our solutions click here or contact us directly for more information.

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