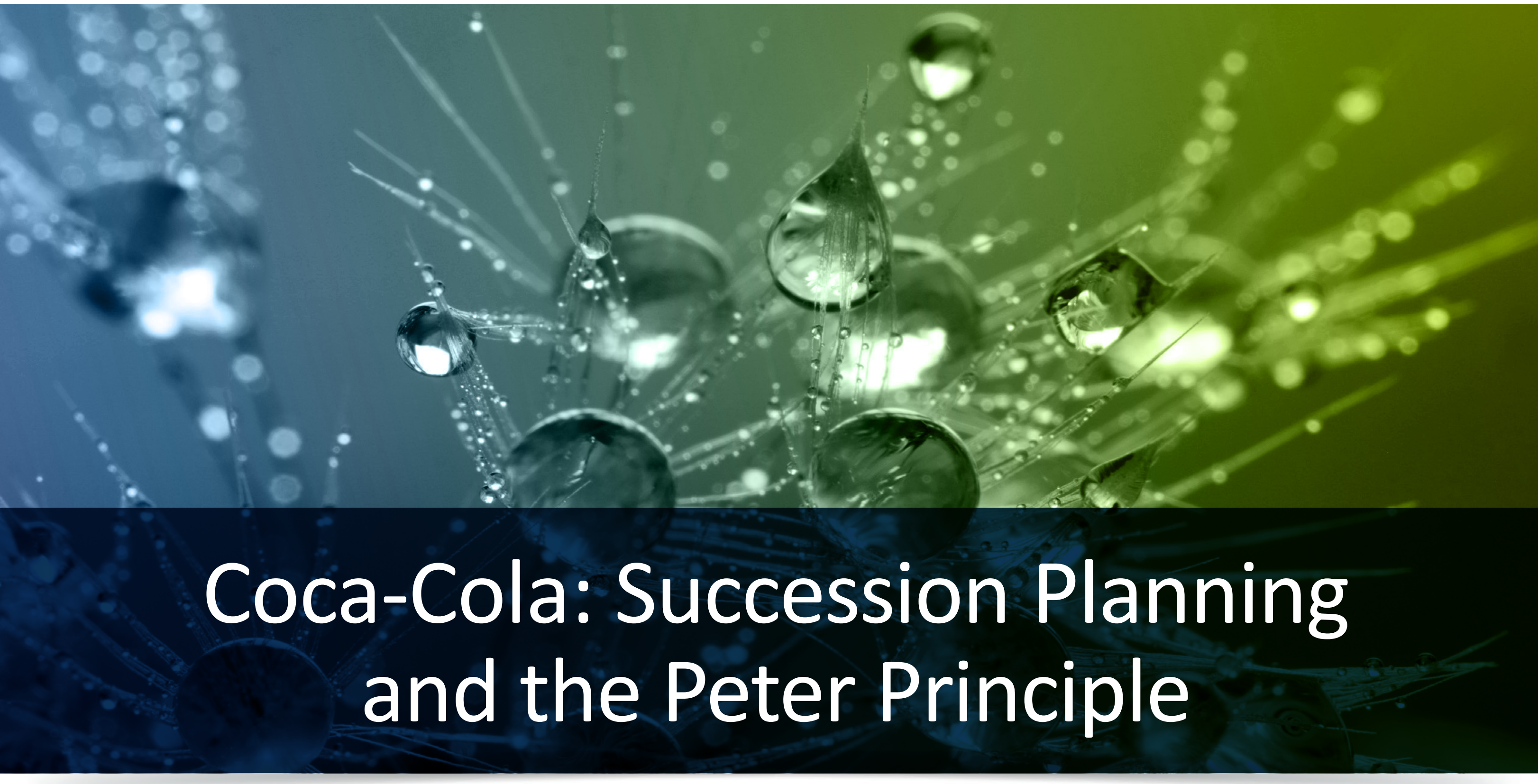
CASE STUDY



Coca-Cola: Succession Planning and the Peter Principle

In 2000, Harvard Business Review (HBR) highlighted a growing trend in CEO turnover. Studies were showing that a third of Fortune 100 companies had replaced their CEOs in the last five years, and CEOs appointed after 1985 were three times more likely to be fired than those appointed beforehand.[1]

While some CEO turnover is organic and inevitable, most can be attributed to faulty succession planning. When companies don't take time to intentionally groom successors, they end up promoting the wrong candidate or failing to equip the right one. This is why Ronald LeMay lasted less than four months as CEO of Waste Management Corporation, and Robert Nakasone resigned after 18 months at Toys R Us.[1] And they weren't the only ones.

Despite its status as a global brand and giant in the consumer-packaged-goods industry, The Coca-Cola Company (Coca-Cola) is no stranger to issues with their succession planning.

THE **PROBLEM**

On December 6th, 1999, Doug Ivester retired at age 52, resigning after only two years as CEO of Coca-Cola. During his short time in office, Coca-Cola's return on shareholder equity dropped from 56% to 35%, and overall earnings declined for two years on-end. The company's market value remained unchanged; little consolation given that it grew 34-fold during Roberto Goizueta's 16-year tenure as their previous CEO.[2]

Ivester began his career at Coca-Cola as an extremely successful CFO. However, despite being mentored by the previous CEO for over 10 years, Ivester failed to adopt his predecessor's most valuable leadership skills. Why was Goizueta's protégé and right-hand man unable to follow in his footsteps? To answer that question we've taken a look at McDonald's succession planning process and applied current concepts from management psychology.[3]

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WHAT **HAPPENED**

As Coca-Cola's CEO, Ivester did not inherit an easy job at an easy time. The company was at the end of a bottler-consolidation strategy that had given Coca-Cola a steady stream of extra revenue. Not only that, the weak dollar that had previously bolstered the company's earnings suddenly strengthened. In addition, the Asian Financial Crisis that began in 1997 was raising fears of economic meltdown and harming sales in one of Coca-Cola's major markets.[2] All this did nothing to improve Coca-Cola's performance during Ivester's time as CEO.

That being said, Ivester did little to guide the company through its challenges. He was insensitive to socio-political contexts and unable to address stakeholder concerns. He lost the Orangina and Cadbury Schweppes business in most of Europe because he failed to address anti-Americanism among Orangina's executives. Not only that, in 1999 Ivester mishandled one of Coca-Cola's greatest health scares. The world was informed that a group of Belgian schoolchildren had fallen sick after drinking a contaminated batch Coke.[1] This occurred after Belgium's previous health minister and prime minister lost their jobs because they overlooked fears about dioxin-contaminated beef.[4] Fear over food safety was prominent, and yet Ivester ignored public relations and reported simply that his product had been tested and raised no health concern. Belgium's Health Council later called the subsequent epidemic of Coca-Cola "poisoning" a case of "mass sociogenic illness"[5] (the politically correct term for large-scale panic-induced sickness). Whether or not the public's fears about Coca-Cola were valid, Ivester failed to address them.

Closer to home, Ivester's lack of social awareness also resulted in the loss of Coke's highest-ranked African American executive, Carl Ware. Ware left after being effectively demoted, despite saving the company from a potential discrimination-based public relations disaster when he established a $50 million program to encourage Black vendors. Coke employees and the city of Atlanta were outraged by his demotion, and Ware resigned soon after. It wasn't until after Ivester stepped down that Ware was rehired and promoted to VP, Public Affairs and Administration and took back his position, reporting directly to the new CEO.[6]

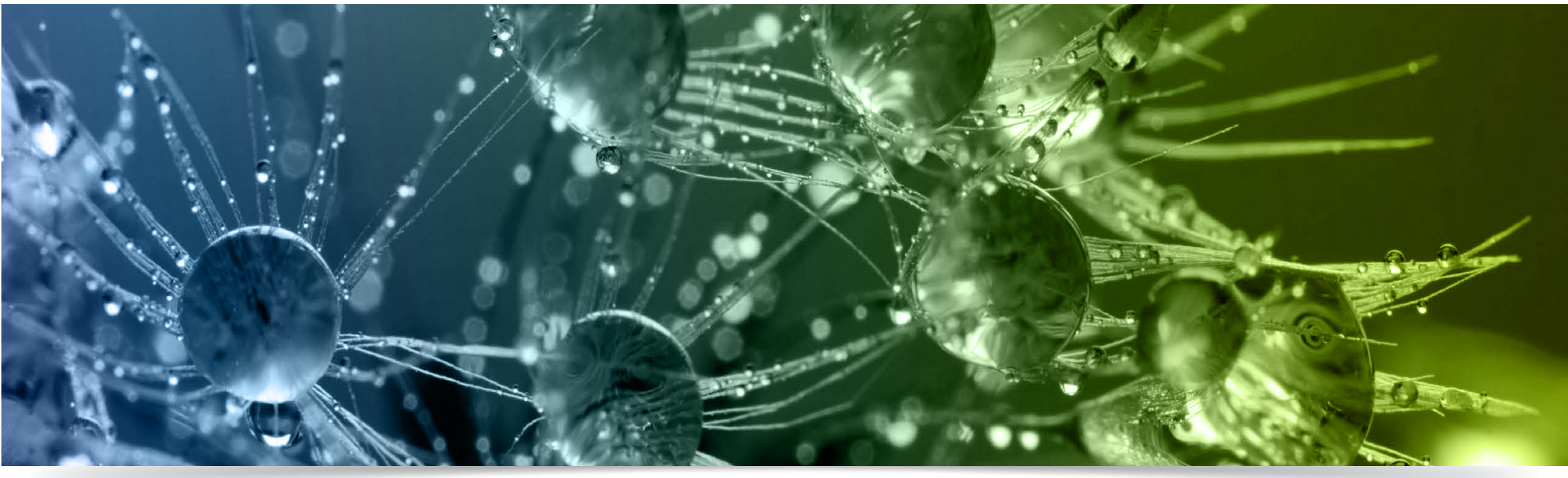
At the end of the day, Ivester may have been a good manager, but he was not a leader. He was insensitive to the socio-political circumstances in which he was operating, and he failed to balance Coca-Cola's long-term financial strategy with the company's immediate challenges. How could someone so strong as a CFO be so lacking as CEO? Unfortunately, it's not an uncommon occurrence, and it's a phenomenon that has been explained by the Peter Principle.

ABOUT **COCA-COLA**

The first Coca-Cola was served in 1886 in at Jacobs' Pharmacy.[8] The drink was invented by Dr. John Pemberton, a pharmacist in Atlanta, Georgia. Pemberton created the syrup for Coca-Cola, carried a jug of it to the nearby pharmacy, and distributed samples there. The drink was pronounced "excellent" and the pharmacy began selling it as a fountain drink for five cents a glass.[9]

Six years later, The Coca-Cola Company was founded in 1892. Today, the company primarily manufactures and sells syrup and concentrate for Coca-Cola. The drink has become a cultural institution in the United States, and a global symbol for American tastes.[10]

In 1960 the company acquired Minute Maid and began transitioning to a total beverage company. Today they own over 500 brands including Fanta, Zico coconut water, Costa coffee, and more. Coca-Cola operates in over 200 countries and has over 700,000 employees across company and bottling partners.[8]



HOW **THEY GOT THERE**

Because Ivester spent 10 years being mentored by Goizueta himself, the board thought they were honoring their late CEO's wishes by passing the role on to his protégé. In doing so, Coca-Cola fell victim to a common succession planning mistake, dubbed 'The Peter Principle.'

The Peter Principle dictates that people tend to rise to their own level of incompetence.[3] This happens because we mistakenly assume that employees who excel at one level ought to be promoted to, and to find success at the next. In the case of Coca-Cola, Doug Ivester was a remarkable CFO, so rather than promoting him to CEO the board would have done well to keep him where he worked best.

The Peter Principle wasn't the only flaw in Coca-Cola's succession planning process. Another issue the company faced was a lack of communication between the board and corporate leadership; this made their succession plan regrettably one-sided. In a memorable article, HBR described Ivester as being known among co-workers as an "arrogant version of Jimmy Carter – consumed by details and unable to see the big picture."[1] He was well known among Coca-Cola's employees as a skilled CFO, but few inside the company thought of him as a leader. This insight would have been available to the board if they'd taken the time to consult their corporate leaders. For this reason, succession planning requires the collaboration of all parties involved.

Despite these issues, Coca-Cola may have been able to navigate a less-than-effective CEO. The original plan was for Goizueta to remain an advisor and public figure in the company's management but allow Ivester to take over the technical reigns as CEO. Unfortunately, Goizueta passed away and Ivester was clearly unequipped to bear the entire burden himself. In this case Coca-Cola would have done well to have at least one other candidate groomed for succession, in addition to ensuring that their primary candidate was fully capable of taking on the role.

FUN **FACTS**

- Coca-Cola is commonly believed to have invented Santa Claus. While the company did not create the legend itself, they did play a big role in shaping the Santa we know today. In 1931, Coca-Cola commissioned Haddon Sundblom to paint a caricature of Santa for their Christmas advertisements. Before then, St. Nick had already been depicted in many different countries around the world, ranging from Julenisse in Norway, to Hoteiosho in Japan. Sunblom's version of Santa Claus were inspired by Clement Clark Moore's poem, "A Visit from St. Nicholas," more commonly known as "Twas the Night Before Christmas." The advertisements showed Santa as a big, jolly man, including rosy cheeks, a white beard, twinkling eyes, and, of course, a fresh bottle of Coke.[11]
- As part of their World Without Waste initiative, Coca-Cola's goal is to make all of their packaging 100% recyclable by 2025, and to use at least 50% recycled material in their packaging by 2030. So far, 87% of their packaging is recyclable, and in some countries, their bottles and cans are made with more than 25% recycled materials.[12]
- The Coca-Cola Foundation was established in 1984 and has donated over $1 billion through its First Generation Scholarship Program, and initiatives to empower women, enhance communities, and protect the environment.[13]

KEY **TAKEAWAYS**

1. **DON'T FALL PREY TO THE PETER PRINCIPLE** Just because someone excels at one level of leadership does not mean they will be successful at the next. Remember that technical expertise isn't an indicator of managerial potential, and that employees should be encouraged to stay in positions that capitalize on their strengths. To help you overcome the Peter Principle, we recommend assessing candidates' skills, not just for the current role, but for the role they are slated to take on. Use objective measures as well as feedback from others; this will help you overcome biases and understand which candidate is right for the role.
2. **COMMUNICATE WITH YOUR BOARD/COMPANY** A proper succession plan requires collaboration from the board, corporate leadership, shareholders, and employees. Diversify the perspectives available to you so that you can make an informed decision about what is best for the future.
3. **HAVE A PLAN B** Ensure your leadership bench is well developed so that you have multiple succession candidates groomed for each role. This will allow your organization to promote internally even if your primary successor is unable to take on the role.
4. **DON'T SETTLE** Coca-Cola's original plan was to have Ivester take on the technical role of CEO but keep Goizueta as a visionary leader. This should have been an early indication that Ivester was not entirely fit for the position. When identifying and grooming succession candidates, look for those who have the potential to truly take on all aspects of the role.

SUCCESSION **PLANNING AT COCA-COLA TODAY**

It's been two decades since Ivester's resignation as CEO of Coca-Cola, and the company has improved their succession planning since. James Quincey is the incumbent CEO and has been since May 1, 2017. Quincey was groomed as a CEO succession candidate during his time as president of the company's Europe group, then as the company's overall president and COO. He had a 20-year career with Coca-Cola, and was personally mentored by Muhtar Kent, the previous CEO, during the latter half. Quincey was given the opportunity to establish a new international operating structure and raise up a leadership team. He was familiar with Coca-Cola's brands, values, and systems, and was quoted by Kent as having an "acute understanding of evolving consumer tastes."[7] In short, Coca-Cola invested in developing a leadership pipeline that allowed Quincey to both demonstrate and develop the strategic vision and inspirational leadership that Doug Ivester was lacking. In this way Coca-Cola has served as an example of both the risk in unplanned succession and the benefit of ongoing succession planning.

HOW **SIGMA CAN HELP**

Like Coca-Cola today, 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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