

## Apple's CEO conundrum

*Arik Hesseldahl*

*Tim Cook has run Apple well in Steve Jobs' absence, keeping alive the question of whether and how soon he might be named CEO.*

Apple (AAPL) appears poised to make good on repeated assurances that CEO Steve Jobs would be back at the helm by the end of June.

As the date approaches and Apple begins its World Wide Developers Conference on June 8, attention is focused intently on Jobs and what his return means for Apple's investors, customers, and employees. One of the executives most affected by Jobs' return is Chief Operating Officer Tim Cook, who has managed Apple's day-to-day operations during the CEO's medical leave of absence. Jobs, a survivor of pancreatic cancer, said in January that he would be out through June.

Cook has run the company ably in the past half-year, keeping alive debate over whether and how soon he might succeed Jobs as CEO. Why not appoint Cook CEO, the argument runs, and have Jobs stay on as chairman and perhaps take on a secondary title, such as Chief Innovation Officer?

Promoting Cook would make official the de facto roles he and Jobs have already been playing. Jobs is Apple's primary creative visionary, known for his near-obsessive attention to the minutest design details. Cook, on the other hand, is renowned for his powerful command of sprawling operations that generated \$32 billion in sales last year and employ some 35,000 people around the world. Jobs would remain the company's public face, a role he's excelled at since his return to the helm in 1997. As CEO, Cook would continue to oversee operations.

A lot of progress in six months

Judging by Apple's stock performance, the six-month Tim Cook era has been positive for shareholders. On the day Jobs announced his leave, Apple shares fell by more than \$2, closing at \$85.33. And while they proceeded to fall an additional \$7 and change over the next few days, they have rallied a healthy 85% since then, closing at \$144.67 on June 5, the recession notwithstanding.

In the months since Jobs stepped away, the company has settled a lawsuit with IBM (IBM) over the hiring of Mark Papermaster to run Apple's iPhone and iPod engineering teams, launched a new version of the iPod Shuffle, updated its professional- and consumer-grade desktop computers, and logged the billionth download of an iPhone application from the iTunes store only nine months after the store was launched.

With the possible exception of a decline in Mac unit sales in the fiscal second quarter that can be attributed to unusually high sales a year earlier, it would be hard to identify hiccups during Jobs' absence. Despite the recession, Apple reported its best sales ever for a non-holiday quarter—\$8.2 billion—in March.

Cook's successful tenure aside, the company has given no indication that Jobs will return as anything but CEO. That shouldn't be seen as a knock on Cook, says Tim Bajarin, head of consulting firm Creative Strategies and a longtime Apple watcher. "The titles CEO and COO, even inside Apple, are fairly loosely defined," Bajarin says. "Apple has evolved in such a way over the last three years to a point where there's an executive team that is in charge of its operations. Steve just tends to be the one who really leads everything."

That team is comprised of Jobs; Cook; CFO Peter Oppenheimer; and Phil Schiller, senior vice-president for worldwide product marketing, who's on tap to deliver the high-profile keynote address to developers on June 8. All have worked closely with Jobs for at least a decade, becoming accustomed to his often demanding and mercurial nature. "Each of these are guys who know how to say 'no' to Steve, but by and large they work pretty much in harmony, and they don't move unless everyone is pretty much in agreement," Bjarin says.

A tried-and-true combo

Many companies besides Apple are well-managed by teams that include a visionary CEO who leaves day-to-day operations in the hands of a strong No. 2 or team of executives. Comcast (CMCSA) Chief Operating Officer Stephen Burke is widely seen as the day-to-day manager, while CEO Brian Roberts tends to concentrate on strategic issues. At Southwest Airlines, (LUV) founder and longtime CEO Herb Kelleher was the airline's public face and retained his job for two years after disclosing that he was fighting prostate cancer in 1999, while others—including current CEO Gary Kelly and former President Colleen Barrett—constituted the company's operational brain trust.

None of this is to say that Jobs and his board won't reach a point, perhaps even in the near future, when they opt to name a new CEO. "This process has weaned him [Jobs] from having to be so involved in the day-to-day stuff," Bjarin says. "I wouldn't be surprised if he emerges from this with less of a hand on the daily operations so he can concentrate on the big picture."

And if a new CEO is named soon, the most likely candidate remains Cook, many analysts say. "My gut tells me that Tim is probably going to be promoted to CEO and Steve will be chairman and maybe something else, like Chief Innovation Officer or something like that," says Charles Wolf, an analyst at Needham & Co. in New York. "That would be a reasonable path."

Another potential successor to Jobs is Ron Johnson, senior vice-president and head of Apple's retail operations. "If Tim were promoted to CEO, they might lose Johnson," Wolf says. There's also an up-and-coming second generation of managers at Apple. Scott Forstall, senior vice-president and head of the iPhone software division, has been taking an increasingly public role at Apple events. Vice-President Greg Joswiak, known by his nickname "Joz," heads iPhone and iPod marketing. Joswiak is a longtime Apple executive and sports a bit of a Jobs-like swagger when speaking at Apple events.

But for now, Apple is still Jobs' company, and whatever title he holds, he's likely to remain very much in charge for the foreseeable future. In Bjarin's view, Jobs "will surprise everyone" and "come back stronger than ever."

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