McDonald's recipe for success brought new CEO to the table

McDonald's Corporation announced yesterday that Don Thompson, 48, will take over July 1 as head of the company when James A. Skinner, 67, retires. The passing of the mantle is part of an elaborate succession planning process that Skinner helped engineer and one that other companies could emulate.

Don Thompson, who will become McDonald's CEO on July 1, is a 22-year veteran of the company. Photo: AP

After losing two CEOs in rapid order, McDonald's revamped the way it plans ahead. In April 2004 James R. Cantalupo, the chairman and CEO, died suddenly of a heart attack. Six months later, his successor, Charles H. Bell, resigned after becoming terminally ill with colorectal cancer. Skinner, who had begun his career at McDonald's 33 years earlier flipping burgers, was promoted from vice chairman to CEO in December 2004, a month before Bell died.

Skinner was the last surviving author of the company's "Plan to Win," a turnaround program designed to address an unprofitable period. The plan, whose other authors were Cantalupo and Bell, listed "attract and retain the best talent" as one of the company's "must do's."

During his tenure, McDonald's has undergone a wholesale reorganization to implement the principles of the Plan to Win. Responding to competition in the fast-food industry and a growing focus on healthier eating, it made several key acquisitions and began to rethink its business strategies. Since Skinner took the helm, the company's stock price has more than tripled, closing Wednesday at $96.72.

Having executives in house ready to become CEO during the back-to-back tragedies of 2004 was essential to revitalizing the company, insiders say. If an outsider had been hired instead, there is a good chance that the Plan to Win would have been abandoned in favor of a different strategic path.

Skinner's 41-year career at McDonald's exemplifies the company culture, which favors homegrown leaders over those hired from outside. The succession pipeline that produced him had begun to be reconfigured six years before his appointment. It requires two successors for each key spot — "one ready now, one ready future." The future candidate is groomed to be ready within two years.

The McDonald's culture favors continuous improvement. Rather than send employees to offsite leadership development programs at prestigious universities as many other companies do, McDonald's runs its own. These programs combine instruction by the company's executive team with speeches by outside experts. The goal is to provide a natural link between leadership development and the company's business strategy, something that might be harder to achieve if executives went off campus for their instruction.

Thompson, a 22-year veteran of McDonald’s, started work there as an electrical engineer in 1990. Since then, he has held a variety of positions—the last two of which seemed designed to ready him for his new post. As president of McDonald’s USA from 2006 until 2010, he was responsible for the strategic direction and positive business results of the nearly 14,000 restaurants in the U.S. He became President and COO of McDonald’s in January 2010, which put him in charge of global strategy and operations for more than 33,000 McDonald’s restaurants in 119 countries. A company spokesperson declined FORBES’ request for an interview with Thompson.

The hiring process at McDonald’s fosters a collective culture by selecting for candidates who are willing to put the good of the organization ahead of individual ambition. At companies where there is an “appreciation for the common good, you don’t have a lot of pride of authorship,” observes Jeffrey Sonnenfeld, head of The Chief Executive Leadership Institute at the Yale School of Management and author of “The Hero’s Farewell: What Happens When CEOs Retire.” When there are successes, the glory is shared. But when things go wrong, “you don’t have a vilification, finger- pointing culture,” like the ones that have surfaced at various troubled companies in recent years. McDonald’s has maintained its succession process through good times and bad, Sonnenfeld notes. In fact, an enduring culture can help people get past a disappointing quarter, he says.

McDonald’s extraordinary bench strength contrasts sharply with that of other companies. For example, Micron Technology didn’t seem to be grooming an obvious successor when its CEO Steve Appleton died suddenly last month in a small plane accident. The next day, on Feb. 4, the Board of Directors appointed Mark Durcan as president and COO to take his place. Durcan had been scheduled to retire. Daniel Francisco, a Micron spokesman, told FORBES at the time that “Micron’s corporate governance guidelines call for immediate succession of the CEO position by the President on an interim basis.” Other companies, too, have brought back retired CEOs in a time of crisis, Sonnenfeld notes.

Trouble is, “When boards wait until a CEO is sick or in the aftermath of a crisis, it’s hard for the board to be thinking clearly,” Sonnenfeld says. “It’s great to plan for an unanticipated departure of a CEO. They may leave for another job. There could be a scandal that crops up, or something in their life changes. You really need to have a succession plan worked out to the point of almost being ready to rehearse how it’s going to be enacted and who will communicate to the firm in a time of transition–who the spokesperson is going to be,” Sonnenfeld adds.

Still, for the McDonald’s-style process to work, “ready now” candidates must be at least as strong as the people they would replace. In a company that is a leader in its industry, people might be willing to wait patiently on the bench hoping for “a shot at the very big time,” says Peter Cappelli, a professor of management at The Wharton School at the University of Pennsylvania and author of “Talent On Demand: Managing Talent in the Age of Uncertainty.” Elsewhere, other opportunities might cause them to jump ship.

This succession model also does not work when a company is changing rapidly because it is restructuring or responding to volatile demand for its products, Cappelli says. “Introducing salad is a trivial change compared to what you see in other industries,” he says. While McDonald’s is “ideally suited for reasonably predictable internal succession,” at other companies “by the time a successor has grown, the business has changed in important ways and the person you had developed for that job no longer fits.”

Some CEOs just don’t want to confront their own mortality–an issue that has plagued Warren Buffett ever since he was a young man. Last month, in his annual letter to shareholders of Berkshire Hathaway the Oracle of Omaha announced that he has a successor in mind. Still, he doesn’t say who it is and emphasizes that at 81, he’s hardly ready to retire.

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