



## Instant Insight

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May 1, 2002

### Sun Microsystems Announces Leadership Changes and New Organizations

*By Joyce Tompsett Becknell*

Today Sun Microsystems announced the departure of President and Chief Operating Officer, Ed Zander, effective July 1, 2002. Zander's full time responsibilities will be handed over to Scott McNealy, who is currently Chairman and Chief Executive Officer of Sun.

In addition, Sun previously announced three other executives are retiring on the same day. The three retiring executives and their replacements are:

- ◆ Mike Lehman, Executive Vice President of Corporate Resources, Chief Financial Officer, and Corporate Executive Officer,
  - o Replaced by Steve McGowan, former Vice President of Finance, Planning, and Administration for Global Sales Operations;
- ◆ Larry Hambly, Executive Vice President of Enterprise Services,
  - o Replaced by Patricia Suelz, former Executive Vice President of Software Systems Group;
- ◆ John Shoemaker, Executive Vice President of Computer Systems,
  - o Replaced by three of his former direct reports who are now Executive Vice Presidents: Clark Masters for Enterprise and Vertical Systems, Neil Knox for Edge Computing and Horizontal Systems, and David Yen for Processor Products Group.

Sun has also recently launched two new business units within the company. The first is a unified software organization, bringing together Sun's software and software products, including Solaris, Java, and the Sun ONE products. Executive Vice President Jonathan Schwartz, who is currently Sun's Chief Strategy Officer, will lead this group. The other group is a marketing and business development organization, which will be run by Executive Vice President Mark Tolliver, currently Executive Vice President and President of iPlanet.

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It's the season: Sun has a yearly tradition of realigning its management team in the April timeframe. They usually do this as part of the annual planning for the next fiscal year, which begins on the first of July. For industry analysts, these announcements are as much a part of springtime as robins and crocuses. However, this year was a bit of a surprise because it covers a significant portion of Sun's executive

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836 W El Camino Real  
Mountain View, CA 94040-2512  
650-390-0700 fax 650-649-2302  
London +44 (0) 20-7900-2819  
Munich +49 (0) 89-4201-7144  
Amsterdam +31 (0) 35-588-1546

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management and has been delivered in bits and pieces over the last month with the culmination today of the announcement regarding Zander.

In a conference call, McNealy and Zander portrayed the events as having been planned over the last two years. McNealy stressed that all of the change was part of an ongoing succession plan Sun has created over the last several years, and that there is no hidden meaning behind these announcements. In fact, the retirements are all very friendly, with many of the departing executives lingering until September or year-end to assist with the transition. On the other hand, one cannot help but wonder about possible deeper meanings when so many key executives depart at the same time.

Perhaps most surprising is McNealy's announcement that there is no immediate replacement for Zander. For all his talk of extensive succession plans, one would think that the President and COO should be the number one focus of those plans. The fact that he cannot or will not name one makes one wonder what all those succession plans are for, if not for the head of the company. At the same time, the McNealy-Zander relationship is singular. Ed "Armani" Zander, the serious New York businessman, has been a perfect foil to McNealy's Detroit bad boy, who is better known for shocking one-liners about the competition, most notably Microsoft. It will take time to find another executive who can complement McNealy and drive the company to the next level, managing multiple direct reports, representing Sun to key customers, and managing the dogged financial analyst community.

One must also consider Sun's position. While there is rumor that Sun could return to profitability in the next quarter or two (leading statements and economic rollercoasters aside), from a market perspective it is clear that Sun is gearing up for the next phase of the ongoing market domination war. Although McNealy likes to position Sun squarely as a systems company, company executives will admit that they face a two-front war with IBM on one side and Microsoft on the other. In addition to rolling out ever faster, bigger, and more robust hardware, Sun has Java to consider, is evolving operating environment capabilities, and is uniting its disparate software bits under the more cohesive Sun ONE umbrella. The organizational changes are the easy part. Getting the strategy right is tougher, although McNealy's consistent vision of a big freaking Web tone switch continues to work for them. But it may have to work harder. The road to get there from here is not at all clear for anyone in the industry, and Sun does not have a lot of wiggle room for error right now, as IBM continues to develop a solid product portfolio and HP/Compaq have finally been released from their eight-month stasis and once again will have the opportunity to have significant impact on the market.

McNealy will need to put his money where his mouth is and demonstrate that his new team really has the energy, vision, and drive needed to get the company to the head of the pack again. He needs to solidify the new team and finish the latest round of squabbling over which road to take. The new software team, headed by Jonathan Schwarz, will be particularly important to the business as Web services and data center virtualization models evolve into reality. Many of the necessary components will come from software innovation. We believe it is no accident that Schwarz has been placed in this role. He has been trained in the business background for the last few years. He has been responsible for long-range planning and development functions, mergers and acquisitions, venture and strategic investments, and strategic relationships. He has run product groups and is now in charge of arguably the most pivotal group at Sun. As the wagering begins in boardrooms, bars, and stock markets for the replacement for Zander, from our perspective Schwarz is looking like the odds-on favorite.

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