

New Sun CEO Is Unconventional, Controversial

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WHEN DIRECTORS at Hewlett-Packard Co. saw a need for a new chief executive officer, they recruited Mark Hurd, a button-down operations specialist from NCR Corp. who is now overhauling H-P's sales strategy. Rival Sun Microsystems Inc., by contrast, promoted a brainy insider who promises to stay the computer maker's maverick course.

Sun's choice prompts this question: Does Jonathan Schwartz, who succeeds co-founder Scott McNealy as Sun CEO this week, have the management chops to revive a Silicon Valley giant?

Mr. McNealy answers with a resounding yes, citing a series of smart decisions by Mr. Schwartz and 10 years of seasoning in various jobs at Sun. "Nobody has any doubts about his strategic vision and capability," says Mr. McNealy, who remains chairman and played a leading role in grooming his successor. On Wall Street, though, some doubts remain. That is partly because Mr. Schwartz says he plans to resist analysts' calls for dramatic job cuts at the company, a one-time high-flyer that is losing money and seeking more growth in sales of its server systems.

"It is unclear if CEO Schwartz will be able to provide as an objective and fresh a perspective as might be needed," said Toni Sacconaghi, an analyst at Bernstein Research, in a research note following the Schwartz appointment Tuesday. Mr. Schwartz's operating record is "relatively unproven," and his thinking "eerily similar" to McNealy's, the analyst wrote.

There are few similarities in their personal styles. Mr. McNealy, 51 years old and holder of a master's degree in business administration from Stanford University, is the son of an American Motors executive and draws management metaphors from the auto industry. He is also a jock, known for his low golf scores and amateur hockey skills.

Mr. Schwartz, 40, is a slight, bespectacled man whose most famous feature is a brown ponytail. He attended high school in Bethesda, Md., and studied mathematics and economics at Connecticut's Wesleyan University. Where Mr. McNealy lives in a big house in suburban Portola Valley, Mr. Schwartz resides near San Francisco's gritty Mission district, where homeless people mingle with professionals flocking to trendy restaurants. Asked if he has any hobbies, he replies "eating."

Mr. Schwartz started his career with the management consultants McKinsey & Co. in New York. He then joined startup Lighthouse Design Ltd., a maker of desktop software. He joined Sun in June 1996, when the company bought Lighthouse.

Mr. Schwartz's jobs at Sun have included directing its venture- capital activity, serving as senior vice president of corporate strategy and planning and, most recently, as president and chief operating officer. Former Sun executives say the new CEO has a deep interest in technology and frequently hangs out with rank-and-file engineers, encouraging them and identifying talent within the company.

He has had a strong influence over Sun's software and pricing. Among other things, Sun began offering free downloads of its Solaris operating system, an effort to counter competition from Linux, which is also available in free versions.

In 2004, Mr. Schwartz attracted attention by offering an unusual flat rate for companies to run jobs on computers that Sun would manage -- \$1 for each hour they use a Sun server. More recently, he has pushed some in-your-face marketing; one Sun newspaper ad, comparing its servers against those of Dell Inc., says "given how hot and slow our competitor's servers are, it's no surprise their name rhymes with hell," with the final three words in big, bold-faced type. (Asked about the ad, a Dell spokesman responded: "We focus all of our attention on our customer, not competitors.")

"Jonathan is an agent of change," says John Fowler, a Sun executive vice president who has reported to him for years. Mr. Fowler recalls that his boss once kept a sign outside his office that read "Doctors only, please, no patients," meaning that Mr. Schwartz wanted employees to come to him with solutions, not just whine about problems.

Many Sun gambits are first discussed on Mr. Schwartz's blog, which is widely read among technology executives. In August 2004, he used the blog to muse about the possibility that Sun might buy Novell Inc., which sells Linux and other software. No deal or negotiations were ever disclosed, though Novell's stock enjoyed a slight temporary rise after the posting.

A posting this week, in the form of a heartfelt tribute to Mr. McNealy, noted: "There is no single individual who has created more jobs around the world than you."

And jobs, of course, are a continuing source of controversy. John Shoemaker, a former Sun executive vice president, wrote a commentary in March for an Indiana University business magazine taking Sun to task for not cutting its work force more aggressively when the Internet bust dried up demand for Sun's machines. He also cited the 2002 departure of then chief operating officer Edward Zander -- now chief executive of Motorola Inc. -- and took a potshot at the decision to replace him with Mr. Schwartz.

"Sun lost an opportunity to go outside the company and bring in a proven, senior, high-profile replacement for Ed," Mr. Shoemaker wrote in the publication *Business Horizons*. "Instead, they brought in a junior, unproven, internal person to the COO position."

Eric Johnson, director of the Center for Digital Strategies at Dartmouth's Tuck School of Business in New Hampshire, argues that Sun needs to deliver a simpler, clearer message to companies that buy its technology, but he concedes that Mr. Schwartz is a good fit for Sun's engineering culture. "He has the religion and Sun theology, and will play well internally, but he

has his work cut out for him to get out and talk to the large enterprise firms and get Sun back on the technology map," Mr. Johnson says.

Mr. McNealy insists that customers have never been happier with Sun -- largely because of many moves by Mr. Schwartz, including overhauling the company's server line and helping to bring co-founder Andy Bechtolsheim, a legendary computer designer, back to the company in 2004.

Mr. Schwartz, meanwhile, insists that Sun can improve its profitability by increasing revenue while keeping its head count fairly constant. He bristles at any suggestion that he is too young for his role. "One's gender or their height or their age have nothing to do with one's creative energy or ability to change the world," he says.

One symbolic change: Mr. Schwartz invited Michael Lehman, who returned to Sun as chief financial officer in February, to share an office with him. Mr. McNealy will also begin sharing space with another executive.