we identified has important implications for companies. In simple terms, while individual consumers perceive differentiation directly and react in real time (buying more Coke, say, as marketing increases differentiation), financial markets, it appears, don't respond until they see the impact on earnings later on. The markets don't seem to anticipate the future impact of improved differentiation–or perhaps they don't recognize the change in differentiation in the first place.

Though managers often think their voluntary disclosures have little impact, it's been shown empirically that disclosures, ranging from new product announcements to explanations of financial results, affect financial-market outcomes such as share price, trading volume, and bid-ask spreads. If companies are to reap the full and immediate benefits of brand differentiation, managers need to do a better job of communicating their brand strategy (and its intangible outcomes) to the financial community.

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SUCCESSION

The Hardest Hire

by ANNE LIM O'BRIEN

What could be more difficult than finding a new CEO? Many companies say it's finding someone who's willing to sign up for the number two job: COO.

The problem often lies with a firm's uncertainty about whether it's looking for a "pure" COO or for a successor to the CEO. The board should be clear at the outset about which role it is seeking to fill and make that goal clear to candidates; there should be no vague, open-ended promises of succession to potential hires unless succession is the goal. Harbor no illusions that hiring a capable COO will solve your succession planning if that's not what you're setting out to do.

Many companies, especially large conglomerates, still employ pure COOs with real power and easily attract candidates who welcome the opportunity for professional growth that a big company affords. These hires are relatively easy.

Surprisingly, it is the possibility of CEO succession that makes finding the right COO more difficult. In that case, the company wants a candidate who is fit to be CEO but who can partner effectively with the current CEO. Meanwhile, the candidate needs to be satisfied about potential transition plans, timing, likelihood of the succession, and the performance expectations that might determine whether the succession takes place. If the company is reluctant to commit to a timetable, the candidate may prefer the safety of a present position to the risk of an uncertain promise.

Additionally, the company must compete for talent not only with other firms searching for COOs but also with companies searching for CEOs. As the number of CEO opportunities rises, the COO talent pool shrinks. And potential COO candidates who have the ability to be a CEO from day one often prefer to wait until that day comes. Despite these challenges, there are some things you can do to increase the odds of a successful search for a COO who can eventually succeed the CEO:

Create the position, if necessary. Many companies have phased out the COO position, parceling out corporate responsibilities to the CFO and operating responsibilities to division heads. To meet the demands of Sarbanes-Oxley for greater accountability, they have also shortened the CEO's line of direct responsibility by eliminating the COO slot. In those organizations, when a CEO intends to retire and there is neither a current COO nor a potential successor inside the company, the board can create an interim COO role and fill it with an outsider who could eventually assume the top job.

Expand the talent pool. Look outside your industry for the "best athlete." Just as the top college lacrosse teams often recruit outstanding high school football players with the expectation that they can learn an unfamiliar sport quickly and excel, you can look far afield for the best executive. Make it clear that you will accommodate the candidate's need to learn the industry and to build trust and respect inside the organization prior to succession.

Reduce the uncertainty of succession. Establish a clear timetable. If a highly desirable candidate requires further assurance, you might consider guaranteeing that the company will incur heavy obligations if succession does not occur by a certain date, assuming satisfactory performance by the candidate. Such risk-reducing arrangements make it easier for the candidate to say yes while leaving the company an out if the candidate does not perform well.

Involve the board. The board's involvement signals to the candidate that the company means business because the search and hiring process takes place in the broad context of corporate governance, not merely as an item on the CEO's agenda. The candidate feels wanted by the entire company.

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