The case for a chief operating officer

Among the world’s major companies, relatively few have created a dedicated chief operating officer (COO) position. Indeed, in some respects, the role appears to be on the wane. But several forces are helping to make the case for a consolidated operational leader clearer, not least thanks to their ability to improve business performance.
Authors

Andrew Caveney  Global Supply Chain & Operations Leader, Ernst & Young

Hennie Human  Performance Improvement Advisory Leader for Africa, Ernst & Young

Markus Heinen  Performance Improvement Advisory Leader for Germany, Switzerland and Austria, Ernst & Young
In contrast to some of the more recent additions to the C-suite, such as the chief privacy officer or chief information security officer, the COO is well established. Since at least 1935, various US companies have counted COOs among their leadership teams. But despite this lengthy tenure, the position has never quite gained the same permanence on the executive management team as other perennial staples, such as the CEO or chief financial officer (CFO). Indeed, during the past decade, a number of management journals and studies have raised the prospect that the role of the COO may even be in decline. Between 2000 and 2012, the proportion of Fortune 500 and S&P 500 companies that had a dedicated COO position fell from about half (49%) to just over one-third (35%), according to Crist Kolder.

What lies behind this? In some companies, there has been a decision to split the responsibilities of the COO across several other executives, perhaps in response to rising complexity, or else because it more closely fits the operational needs of the business. For example, in the power and utilities sector, dedicated executives run the generation and trading, transmission and distribution and retail arms of the business. These roles are effectively that of a COO, but given the size and importance of these units, they are often close to being a de facto CEO of these units. Elsewhere, many of these responsibilities have been folded into the role of the CEO, not least in the wake of growing legislation to clamp down on a lack of executive oversight, such as Sarbanes-Oxley.

But this narrative of relative decline doesn’t quite tell the full story. In Europe, for example, where the COO title is typically far newer, the position appears to be on the rise. From near non-existence just a decade earlier, nearly 4 in 10 of the 97 largest companies within the Eurozone and UK now have a COO position, according to Harvard Business Review. The majority of these have only ever had one predecessor in this position, illustrating how recent an arrival it is.

Turnaround time

What lies behind this shift? The DNA of the COO, new research from Ernst & Young, argues that several forces are helping to make the case for a dedicated operational

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leader more urgent. The most obvious of these is the lingering economic crisis, which has made it imperative for businesses to have a firm grasp on their overall costs and operational efficiency. “Operations are increasingly of strategic importance, addressing both the revenue and cost challenges organizations face, whereas historically there has been a strong bias toward tactics and cost,” says Adrian Edwards, EMEIA Advisory Markets Leader at Ernst & Young.

A related force is a wave of regulation, especially within sectors such as financial services, which obliges companies to get a far tighter grip on operational processes to ensure compliance. Such issues often come in combination with a realization of the need for a transformation of key back-office business units. When this becomes a reality, COOs are typically best placed to lead on such change, especially when it involves overlap across several functions, such as finance, IT, procurement and HR.

Another factor is that globalization and the pursuit of growth has pushed companies to expand beyond their national borders and enter high-growth markets. These markets typically require far closer operational attention, given more challenging business environments. As such, there is often an inevitable rise in complexity, with corporate structures being adapted to suit new needs. “If you think of the critical role that they now play in new channels to market and in enabling revenue growth, then it becomes clear why the COO role has become so fundamental to the success of the business,” explains Edwards.

Collectively, all of these issues can easily overwhelm a CEO, which in turn makes a good case for a central operational leader to whom such worries can be delegated. Daniel Bandle, COO of Axa Winterthur, the largest insurance company in Switzerland, provides one example: “The most important role is that we are capable to deliver on what the business has promised. When you buy an insurance policy, you are paying a premium for a promise. At that point in time, when the claims arise, we have to live up to our promise and deliver. To be able to do that, multiple complex processes have to be coordinated. That is why operations management is a core discipline for us.”

Inevitably, this requires the CEO to find someone who can successfully maintain a broad grasp of the overall business and its component parts. It also frees up the CEO to focus on the aspects that they ought to be naturally stronger at: laying out the overall corporate vision and goals. This then leaves the COO to figure out how best to map out an operational strategy to fit this and help roll it out.

Career moves

A common side effect of the COO’s role, which necessarily oversees wide swathes of the business, is that it makes the position an ideal successor to the chief executive. Indeed, in many companies, the role has effectively become part of their overall succession planning. According to Crist Kolder, just over half of internal CEO hires made between 2000 and 2010 were previously in a COO position. Among the

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many examples of this, Apple’s appointment of prior COO Tim Cook is merely the most high profile.

For COOs, this is part of the appeal. The majority of these executives are highly ambitious – and rightly so, given their diverse and strong mix of skills and experience. In a survey of over 300 COOs, Ernst & Young found that 40% noted a personal aspiration to step up to the top job, a higher proportion than the 30% who felt that their current role was a suitable final career destination.

But this clear aspiration also highlights a political challenge that needs to be carefully managed internally: the balancing act between CEO and COO. It demands that the two roles act as complementary forces, rather than destructive rivals.

This extends through to personality too: two abrasive, hard-charging executives may well find it more difficult to cooperate effectively, for example. “If you’re an introvert CEO, then you’re probably very happy to have a COO who will go to stakeholder meetings and engage the employees,” says Markus Heinen, Performance Improvement Advisory Leader for Germany, Switzerland and Austria at Ernst & Young. “But if you’re an extrovert CEO, then the last thing you need is a COO mirroring your own character. You need the right combination of behaviors and expertise.”

But despite the obvious opportunities for such a role, and the varied benefits it can deliver, it is also clear that COOs need to do more to sell themselves to the rest of the business. “I think that, in order not to become redundant, we have to prove that it really does make sense to bring these operational functions together [into a single role],” argues Bandle. “It is up to us COOs to prove that we’re bringing added value, or we would be bringing more value, than if our function would be dispersed across the organization.”

Making the case

This challenge is a pertinent one. Ernst & Young’s research shows that, while about half of C-suite executives strongly agree on the merits of the COO function, the balance is only somewhat convinced, or else disagree outright. “We need to do a better job of marketing ourselves,” says Bandle.

The most obvious difficulty in doing so lies in finding a way to rise above the intense day-to-day operational demands, in order to gain a more strategic sense of the business. “You’re expected to be a fixer and are responsible for all the operational problems that happen. In a global business, this means that the COO can feel like he or she is on call 24/7,” explains Vivienne Ouyang, COO of CHIC Group, a Chinese conglomerate.

Encouragingly, though, there are many potential opportunities to demonstrate their value. By its very nature, COOs get to straddle a host of other functions, giving them a unique perspective with which to identify inefficiencies, functional overlap or new opportunities and then explore ways to start overcoming these. “By weeding out inefficiencies, and deriving economies of scale across operations, we can add much more value than if our role was scattered across the organization,” says Bandle.

Denis Chuiko, COO of Russian Post, the state postal operator, agrees: “My duty is to create a well-oiled machine that will guarantee that targets can be accomplished within the framework of the strategy,” he says. This is not just true across different functional silos, but also within regional ones too. A central perspective on this can make it easier to see where activities should be best located and whether they are better served in-house or outsourced.

Furthermore, by typically being more intimately acquainted with actual customer needs, they are well placed to help ensure that back-office changes do not fundamentally affect the competitiveness of the company, but rather contribute to its performance and profitability. At AXA Winterthur, Bandle regularly visits its call centers to talk with customers on the phone, or visit claim sites: “Last week, I accompanied a claims inspector looking at water damages in a region. You need that combination of being very close to the real operations, but also keeping in mind the bigger picture of the strategy and wider environment,” he says.

Defend or grow?

From a macro perspective, COOs have the ability to make a positive contribution toward improved overall performance in three broad areas. First, and most obviously, on execution: keeping control of daily
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operations and optimizing the company’s operational processes. Second, in enablement, by helping translate the CEO’s vision into an achievable strategy. And third, through development, by overseeing change and business transformation and helping shape the future of the business.

But while this is generally true, the reality is that COOs must focus their efforts in line with their environment. The most obvious example of this comes from the divide between operational leaders in slow-growth developed markets, versus those experiencing rapid change and growth. “The requirements of the COO role are dependent on time, place and geographical area,” explains Arunotpal Thakur, Business Head Leather Products at Tata International. “What is relevant for a COO in Western Europe might be different from what is important to a peer in South Asia.”

This is not to suggest that one job is easier than the other: one requires strenuous efforts on cost-containment and efficiency, while the other is rushing to scale up capacity without overextending the business. “It is critical for COOs in these markets to ensure that, even though they are in a bountiful situation from a growth perspective, they take care of operations and ensure that they become more efficient as they go along,” says Thakur.

But whether seeking to defend the business or help it grow, more CEOs will recognize the logic of a consolidated operational leader who can deliver on their vision and bolster performance. Bandle explains, “We need to make even better use of our economies of scale to get greater synergies. That’s the whole reason we have a COO.”

Find out more

For further information about the survey on which this article is based, visit www.ey.com/performance/dna-coo.