strategy+business

ISSUE 79 SUMMER 2015

The Decline of the COO

Is it time to add chief operating officers to the list of endangered species?

BY GARY L. NEILSON

REPRINT 00328

The Decline of the COO

Is it time to add chief operating officers to the list of endangered species?

by Gary L. Neilson

In a world where succession planning is increasingly important, it's good to be the COO — right? The chief operating officer has traditionally been the number two person in the C-suite — the senior executive charged with overseeing all of the company's business operations. As such, the COO has long been viewed as the heir apparent, the leading insider candidate to succeed the chief executive officer. Yet, according to the senior executive search firm Crist Kolder Associates, the percentage of Fortune 500 and S&P 500 companies with a COO has declined steadily from 48 percent in 2000 to 36 percent in 2014.

The position is still valid and valuable at more than a third of the Fortune 500 and S&P 500 companies. Indeed, 44 percent of current CEOs were chief operating officers before ascending to the top spot. But the decline is unmistakable: COOs are fading from view throughout the business world. At many high-profile companies, such as McDonald's and Twitter, companies deleted the position from the organizational chart when their COO retired or resigned. At others, COOs chose not to replace themselves in that role when they were elevated to CEO.

Why are so many major corporations eliminating the role? Why are COOs-turned-CEOs doing away with their own former position and, in effect, pulling up the ladder behind them? And when does it still make sense to retain or even add the position of chief operating officer?

Based on our firm's decades of experience advising CEOs and other senior executives on organizational leadership and change, we see three major reasons for the decline of the COO: improvements in CEO management capacity, an overall trend toward flatter orga-

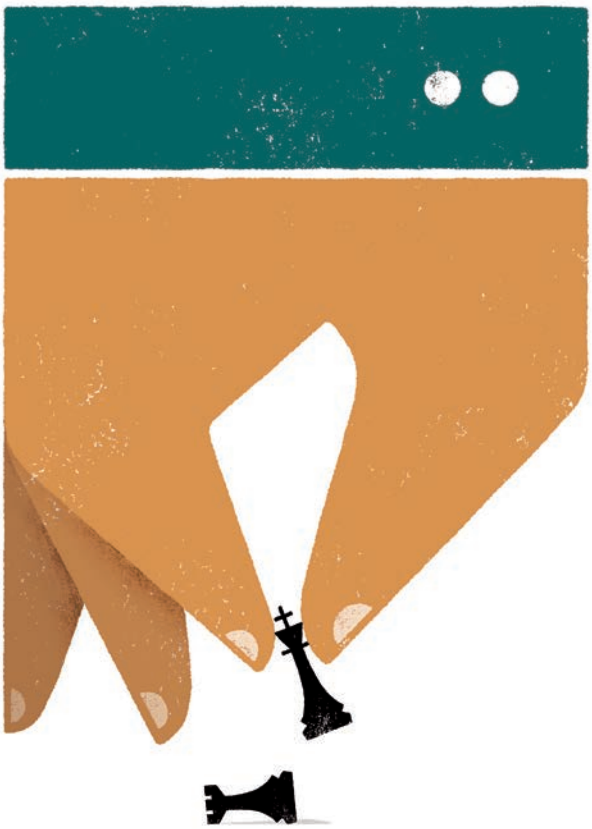

Illustration by Martin Leon Barreto

nizations, and a shift in the nature of succession planning. Although we expect these factors to remain in place and even to grow stronger, we shouldn't count the COO out just yet. There are still circumstances when having a COO contributes real value.

The Increasingly Effective CEO

CEOs today have greater management capacity than ever before, and they are expected by their boards to be closer to the business than they used to be. Over the past two decades, CEOs have been able to double the number of their direct reports (from five to 10, on average), because of a pronounced increase in their own leadership productivity.

The advancing sophistication and reach of new information and communications technology extends the CEO's ability to be everywhere at once. Digital communications technologies such as email, voice mail, videoconferencing, and (to a growing extent) social media enable CEOs to be more hands-on in more of the company's operations. At the same time, enhanced access to timely and customized financial and operating information, often in the form of management dashboards, brings key performance metrics to the CEO's attention on a virtually instantaneous basis.

Another factor is a trend we have observed each year in our studies of CEO succession and tenure: the increasingly common split of the chairman and CEO roles. In more companies every year, the chairman and CEO are different individuals. According to our research, the percentage of incoming CEOs who are also named chairman by their board has declined precipitously, particularly in North America — from 52 percent in 2001 to 11 percent in 2014. (See "The $112 Billion CEO Succession Problem," by Ken Favaro, Per-Ola Karlsson, and Gary L. Neilson, *s+b*, Summer 2015.) This division of labor enables CEOs to spend more time running the business and less time managing the board. Thus, as the number of dual CEO–chairman roles drops, we can expect a corresponding decrease in the number of COOs.

Meanwhile, boards have become more accountable, especially in the aftermath of the financial crisis. They cannot afford to be seen as rubber-stamping the CEO's decisions. They are thus more likely to want CEOs

Gary L. Neilson
gary.neilson@strategyand.pwc.com
is a senior partner with Strategy& based in Chicago. He focuses on operating models and organizational transformation.

to stay closer to the business. Many boards have begun to demand confirmation that CEOs are on top of the company's operations and have firsthand knowledge of their inner workings. The CEO can no longer delegate that sort of detailed insight and responsibility to the COO.

Flatter, More Focused Companies

The second factor contributing to the disappearance of the COO is the general trend toward flatter organizations and more focused portfolios. (See "How Many Direct Reports?" by Gary L. Neilson and Julie Wulf, *Harvard Business Review,* Apr. 2012.) As companies de-layer and concentrate more on their core capabilities, there is less need for a COO to corral and quarterback diverse operations.

This trend has long been on vivid display in the consumer packaged goods industry. Companies such as Unilever and Procter & Gamble expanded into giant multisector enterprises in the 1980s and '90s. But since 2000, they have generally shed businesses that don't fit their distinctive capabilities. The more focused they are, the more effectively they can compete. (See "The New Supercompetitors," by Thomas N. Hubbard, Paul Leinwand, and Cesare Mainardi, *s+b*, Autumn 2014.) As a company's businesses become more related and more concentrated, the COO's role naturally diminishes.

In most industries, chief executives are moving from a hub-and-spoke model of engagement with their top team to a more collaborative approach. The CEO and COO no longer sit in the center, receiving information and issuing directives to satellite units and functions. Instead, the CEO's direct reports work with one another as well as with the CEO, bringing their own insights and expertise to bear in a more distributed and collective approach to information sharing and decision making. This allows CEOs to manage the business more horizontally, which often leads them to remove the COO position from the hierarchy.

No More Pre-Anointed Successors

The third reason we see fewer COOs in major corporations relates to succession planning. As the perceived "CEO-in-waiting," the chief operating officer position can inhibit executive recruiting and development.

For companies looking to cultivate a broad and deep bench of executive talent, the presence of a COO can be demotivating. Crist Kolder Associates president Tom Kolder puts it this way: "We don't see many one-over-one situations anymore — where you have a COO between the CEO and the rest of the executive team. It's hard to attract a world-class chief financial officer, for example, who is not going to report directly to the CEO. The same holds true for the general counsel, the head of HR, and most staff functions."

Like organizations themselves, executive development is becoming more horizontal. When firms set up lateral executive development opportunities and rotate promising talent through operational and functional assignments around the world, they develop a robust cadre of executives who can handle the integration role previously relegated to the COO. This approach works well for companies that compete with distinctive capabilities. These companies, which often span the globe with their products, services, and capabilities, need many executives with integration skills. They can't rely on just a COO.

To extend their reach without a COO, CEOs are

The advancing sophistication of IT extends the CEO's ability to be everywhere at once.

setting up enterprise-wide governance committees and forums. These committees are given a mandate to prosecute the business of the organization — make decisions, convey information, and deliberate about the company's prospects. They also serve as powerful executive development bodies, ensuring that horizontal — often global — teaming works to knit the organization together and bring collective perspectives to bear on emerging issues.

In short, the COO role is becoming less relevant as organizations foster a deeper, broader, and richer executive bench.

When to Keep the COO

To be sure, there are several situations in which the chief operating officer role is not only relevant, but critical to the effective governance of a company.

The first is when companies *wish* to be transparent about their succession plan. Our research confirms that planned succession events have been on the rise since 2000, significantly so since 2009. Appointing a COO can be one way to advertise that a company has succession planning well in hand. The sitting CEO may have made clear that he or she will retire or resign in six months to two years, providing the board with a window to groom a single candidate for the role. Naming a COO helps make that handoff as seamless as possible and enables the "road testing" of external hires.

Second, sometimes the CEO needs to step away from the day-to-day and focus on more strategic concerns. The company may have a significant restructuring agenda that requires the CEO's dedicated attention, or it may be undergoing a transformational shift. The CEO needs a senior operational executive — one with an enterprise-wide perspective — to be on point to drive the comprehensive organizational, operational, and cultural changes required at that moment, or simply to keep the company on track.

Third, the COO can be a useful counterbalance in the C-suite. The CEO may be a strong leader but lack operational experience. He or she may be new to the enterprise. "There are also instances where there are a number of candidates vying for the CEO chair, and there is significant value in keeping the runner-up involved in the company," notes Kolder.

In these situations, the board may wish to complement the CEO's experiences, abilities, and skills with those of a strong COO, thus creating a more complete set of competencies at the top. When they work, these combinations stimulate the performance of both the CEO and the COO (and sometimes the CFO as well), by creating a dynamic in which each challenges the other to excel. +

Reprint No. 00328

Resources

Crist Kolder Associates, *Volatility Report 2014:* Trends in CEO recruiting and succession, based on a survey of 669 Fortune 500 and S&P 500 companies.

Matthew Daneman, "Companies Do Away with Chief Operating Officers," *USA Today*, Aug. 26, 2014: One source of references to McDonald's and Twitter eliminating the COO role.

Thomas N. Hubbard, Paul Leinwand, and Cesare Mainardi, "The New Supercompetitors," *s+b*, Autumn 2014: Explains the trend toward greater focus by leading companies in each industry.

Gary L. Neilson and Julie Wulf, "How Many Direct Reports?" *Harvard Business Review*, Apr. 2012: Research-based guide to the appropriate span of control for CEOs, COOs, and other top executives.

More thought leadership on this topic:
strategy-business.com/strategy_and_leadership

strategy+business magazine
is published by PwC Strategy& LLC.
To subscribe, visit strategy-business.com
or call 1-855-869-4862.

For more information about Strategy&,
visit strategyand.pwc.com

• strategy-business.com
• facebook.com/strategybusiness
• twitter.com/stratandbiz
101 Park Ave., 18th Floor, New York, NY 10178