

AGENDA

COOs: A Vanishing Breed?

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The percentage of companies with chief operating officers has fallen during the past decade, and several organizations have recently revised their management structures to function without a COO. The top operations position, however, remains an internal stepping-stone to becoming a chief executive at many companies.

Observers say the definition and responsibilities of the COO vary from company to company. There's often clarity internally among the board and management about the responsibilities and potential of the COO, and being the COO may not mean the executive is the No. 2 when it comes to CEO succession, despite being the CEO's second-in-command.

"There are some companies where the chief operating officer [role] is just what it says: operations and taking on a lot of detailed management that the CEO doesn't have time for. It's still a very high-level position that usually touches every other division," says Paul Danos, dean at the Tuck School of Business at Dartmouth and a director on the boards of General Mills and BJ's Wholesale Club. "But that person isn't necessarily the person that really drives the actual future of the business, although they could be."

Data collected in an ongoing study by search firm Crist Kolder Associates shows that 47% of companies in 1999 in the S&P and Fortune 500 indexes had COOs. That was up from 1995 when 43.3% of companies had a COO. Since 2007, however, the percentage of companies with COOs has declined steadily. By 2009, the number had fallen to 42.7%, and data through June 30 of this year shows that the percentage had decreased further to 42.2%.

Several companies have recently disclosed management restructuring that gives COO responsibilities to CEOs, or spreads them among executive teams.

Rosetta Stone disclosed last month that its COO was resigning to pursue other opportunities and that the company CEO and president, Tom Adams, would assume the outgoing COO's sales and marketing responsibilities.

Also in July, Avis Budget disclosed that current president and COO F. Robert Salerno had transitioned into the role of vice chairman. The company chairman and CEO, Ronald Nelson, took on the additional roles of president and COO.

Some boards want CEOs to be closer to the business, and the COO position adds another layer between the CEO and day-to-day operations, says Matt McGreal, a principal with Crist Kolder. When companies phase out the COO position, the CEO will often take over the executive's responsibilities or delegate them to his or her direct reports.

Despite the slow disappearance of COOs, the position still continues to produce executives that boards and management have determined are ready for the CEO job. Crist Kolder found that over the past 10 years, 52.2% of internal CEO hires at S&P and Fortune 500 companies were COOs immediately prior to taking the top job.

“A very valid reason for having a COO is for succession planning,” says McGreal. “Elevating somebody from a division president role to chief operating officer role gives them a enterprise-wide view of the organization, and allows them to work more closely on a corporate level with the CEO so they can help groom them into that CEO chair eventually.”

Bill Shepard, the founder, CEO and executive director of the COO Forum and a former CEO of NordicTrack and Pacific Linen, notes that CEO successions at smaller companies have more recently been focused on finding a CEO who focuses less on outward-facing responsibilities and the visionary aspects of the job and can execute cost control strategies. Such responsibilities are often associated with the COO.

“The COO skill set is in demand for the CEO position in these economic times,” says Shepard.

At larger companies, Shepard says, there's sometimes a political aspect to the COO role. When there's a CEO succession and the COO departs, CEOs may wait to fill the role after doing an outside search because the choice will likely be heavily scrutinized. Or, if CEOs were previously the COO, they may wait as long as a year or more to fill their former position because they may want to wait until they're comfortable in their new role, says Shepard.

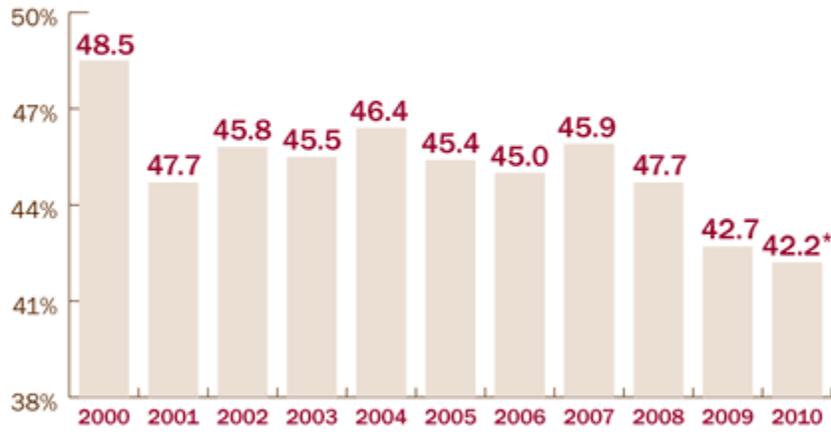
In some companies there are multiple competing internal candidates for the next COO position and the new CEO may not want to disturb company chemistry for a while.

When boards look outside their companies for CEO successors, the COO role doesn't carry the same weight as it does internally. Only 16.1% of CEO hires were external COOs during the past decade. However, operations executives or division heads who basically function as CEOs of their units were often plucked away by other companies to serve as CEO, making up 43.5% of external CEO hires.

“The operating executive or division president... [has] gotten the experience in running a business, whereas the COO isn't necessarily responsible for the (profit and loss),” says McGreal. “They may be responsible for overall operations, but not specifically the running of a business.”

Percent of Companies with a COO

Fortune 500 and S&P 500
668 Companies



Source: Crist Kolder Associates

*Data through June 30, 2010