The dangers in letting COOs become an endangered species

The question needs to be asked: Is operating without a chief operating officer increasing risk around leadership transition?

By Nathan Bennett and Walter Shill

Leading a major corporation has never been a routine task, but a strong argument can be made that the pressures CEOs face today present a particularly daunting set of challenges. One consequence of the tumultuous ride this last dozen years has offered has been a closer scrutiny by stakeholders of all levels of leadership.

Let's start with the board. All members, but particularly board chairs, are now expected to be more actively involved in the company. The chair position is more and more frequently separated from the CEO position and is often filled by someone with deep understanding of the company and its industry.

As the chair has evolved to consist of a separate, knowledgeable, and active executive, the position has itself become much more "hands on." CEOs who are freed of the chair duties have in turn been encouraged to take advantage of the newly found time to get "closer" to the operations of the company.

A slow but steady decline

Two trends are a natural result of this "found time" on the CEO's calendar. First, CEOs are reporting a broader span of control: with fewer board responsibilities, they sense enough bandwidth to take on more direct reports. Second, it is contributing to the slow but steady decline in the number of large

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companies deploying a COO role. The changing boundary between the chair and CEO position has created a situation where a more internally focused CEO is potentially a redundant asset with the value added by a COO. COOs have traditionally focused on smooth operations day to day so the CEO was free to focus attention on the board, external constituents, and the future. The changes in the way chairs and CEOs are enacting their jobs has the net result of creating role overlap between the CEO and COO.

Though there are reasons to be encouraged by a renewed engagement of a CEO, this trend brings with it some unintended and potentially risky consequences that to this point are not being thoughtfully addressed. Chief among these risks is the ability of a company to ensure leadership continuity after it chooses to run without a COO. This is because the COO role has been so effectively used to groom successors — you needn't look further than Tim Cook at Apple. Has there been a more difficult succession to imagine in recent years than to follow Steve Jobs? Cook has done that, and done it in a manner the market has generally recognized and rewarded.

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For several years, a decline in the number of companies with a COO on the leadership team has been observed. There are fewer COOs in major companies: recent research suggests only 35% of the Fortune 500/S&P 500 companies currently have a COO, down from 48% in 2000. The trend is consistent with our assertion that increasing business volatility has caused leadership roles to evolve in a manner that is squeezing the COO out of the C-suite.

Worrisome decision

Perhaps with independent and active chairs and more internally focused CEOs, the COO role is obsolete. Perhaps corporate America has decided the CEO, functional leaders, and business heads don't need a middleman. If true, this is worrisome for both short- and long-term reasons.

In the short run, the key question is whether or not the chair and CEO will together have both the skills and the bandwidth necessary to provide the sum total of leadership required. The COO as second in command is a key figure when the challenges faced by the CEO are numerous and complex; the COO allowed the CEO to focus on the future by relieving them of much of the day-to-day. Without a COO there is potential for the CEO to get bogged down in day-to-day issues like resolving conflicts and resource allocation across functions and shortchanging other critical duties. It is also likely that business unit leaders and functional leaders operate more independently and miss the connections and synergy opportunities. Accountability for performance and discipline to execute strategies can be diminished.

More broadly, as the CEO takes on more direct reports, decision making is likely to be slowed. Just as a start-up is dependent on its founder, is this central CEO going to become an impediment to quick action? Is taking the COO out of the C-suite and assigning those duties to the CEO going to require superhuman effort from the leader? The pressures of working at the strategic and operational level 24/7 in a fast-changing global economy would likely challenge even Clark Kent. It may be possible for a period of time, but it's likely very difficult to sustain.

Risk to leadership continuity

In the long run, we are concerned with the risk that running without a COO poses in regard to leadership continuity. Consider, for example, the 96 companies in the Fortune 1000 that replaced the CEO in 2010. Nearly half the new CEOs were promoted from the COO position. Further, when the new CEO was an internal hire (over 70% of the time in 2010), no other role was tagged as often as the COO. Where did the CEO appointments at the other 57 companies come from? They came from all over the map. There was no clear second pond where companies fished for new CEOs. The question needs to be asked, "Is operating without a COO increasing risk around leadership transition?"

There are some important implications for boards and CEOs that choose not to have a COO. The major strategic issues of dynamic competitors and ecosystems and complex, interconnected, and evolving value chains have not diminished. The pressure from investors has continued to increase. And the need to be informed and involved in government relations has certainly never been greater. The need to be present around the globe is very high.

Separating the chair and CEO roles is a strong move in the effort to improve corporate governance, but sending the CEO to wander the C-suite to look for things to do without a complete appreciation for how those decisions might impact operational effectiveness in the short run and leadership continuity in the long run is dangerous. ■

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