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"Trust lies at the heart of any COO-CEO relationship. The bridge of confidence between two people operating together with separate yet united agendas is essential for this relationship to work."

THE BANKING COO v NON-BANKING COO

Non-identical twins

The roles have a common name and common behavioural traits, but there ends their commonality. The limited reading material available on the role of the COO focuses almost exclusively on the COO within commerce and industry. While there are fleeting references to the banking industry within these papers and books, it is on the execution of the COO role in well-known (and usually global) non-banking corporates that each centres its attention.

For our purposes – looking at the world through a financial services lens – this focus is certainly worthy of consideration, as it helps frame the discussion on the banking COO. It also helps demonstrate the uniqueness and the peculiarity of the role within the financial markets.

Outside the banking sector, the COO is appointed as the CEO-in-waiting. The selection process is primed to provide someone possessing the experience required to replace the CEO in time. This is not relevant for all non-banking companies and large corporates, but it is a central and common point in most of the papers, articles and books analysing COOs and their mandate.

At the time of writing this article, there is a trend towards migration of some business or product heads into a COO role within banking. Such movements from a direct revenue role into a non-revenue contribution role are limited, but as compensation has merged between the two (trading or sales and executive business management or COO roles), and the need to understand regulation, governance and control as a business head is now a prerequisite, this previously unthought-of career choice has become more acceptable to revenue creators. The change is driven by the evolving landscape of banking and the dawn of the new regulatory era. Banking business leaders must now possess an understanding of their business front to back and the implications of the regulatory agenda.

Indeed, under such regulations as the Senior Managers Regime, banking heads and their executive management teams in the U.K. have become accountable for their departments to an unprecedented level. When someone holds collective responsibility for all aspects of the business, the way in which they look at internal matters will undoubtedly be far sharper than ever before, as is the regulation's design. Today it is to the COO that the CEO and/or business heads (whenever we note CEO here, we include business heads) turn for assurance about the control framework and its effectiveness in preventing or identifying potential breaches that could have significant corporate and personal consequences.

Into this space steps the reshaped role of the banking COO, and into this role step tomorrow's business leaders. The COO role has become a medium for career advancement in the modern era; those passing through it emerge equipped to be the future business heads and CEOs. Through the COO experience they are better prepared, more rounded and capable of handling the complex and diverse responsibilities of the CEO in today's highly regulated and controlled banking sector.

The dissection of the COO role outside banking can help us understand the evolving role of the COO within it. The following is an analysis of one of the more recognised papers (from

Nathan Bennett and Stephen A. Miles' *Second in Command; the misunderstood role of the Chief Operating Officer*, reprinted by permission of Harvard Business Review, Vol. 84, No. 5, 2006) investigating the role of the COO. In going over the key points raised and examining their relevance (or not) to the banking COO, we can reconcile areas of commonality and pinpoint areas of difference.

Second in Command – the misunderstood role of the Chief Operating Officer

When Larry Ellison, founder and CEO of Oracle, and his chief operating officer, Ray Lane, parted ways in 2000, the event inspired the kind of breathless reporting usually reserved for celebrity divorces. Forbes.com reporter David Einstein wondered in print, 'Did Lane quit or was he fired?' and wished he had 'a clue as to why Ellison's second banana for the past eight years suddenly was cleaning out his office.' Soon afterwards, CNET News.com weighed in with this: 'The story of Lane's plight at one of the most powerful companies in technology is one of hubris, greed, betrayal and personal epiphany…' Readers were left with two puzzles to sort out. First: Why Lane was leaving his position, given what seemed to be an unbroken string of admirable achievements. And second: Why the event was wrapped in such drama. Executives change posts all the time, yet the story, with its hints of palace intrigue and titanic clashes, was inherently captivating.

For us, it was another example suggesting that the role of the COO is, well, different. Our research since then has put a finer point on the difference. Through in-depth conversations with dozens of executives who have held the position and with CEOs who have worked with COOs, we've gained insight into a subject that has been largely neglected by organizational scholars. Our discoveries shed light not only on the dramatic executive breakups that intermittently make headlines but also *on the successful experiences of many unsung COOs. In this article, we share the success and failure factors we've identified, as well as our analysis of such related questions as: Are there circumstances in which a number two role is particularly useful? Are there situations when it will inevitably produce tension and discord?*

Understanding what makes for a successful chief operating officer is vital because the effectiveness of COOs (or ranking operations executives by whatever name they are called) is critical to the fortunes of many companies—and could be to many more. As we will suggest, the second-in-command executive is a role that by rights should become increasingly prevalent. It is prevented from doing so, perhaps, because it is so misunderstood.

It was rumoured that Ray Lane became the sacrificial lamb after a dubious investigation by Oracle into Microsoft (by Oracle) led to Lane's sudden exit. Some have argued that Larry Ellison enjoyed the limelight, and while Lane had similar ambitions, the two men were never going to form a successful partnership (see Forbes 7/5/2000). It is difficult for two strong personalities to share authority effectively, and although there are exceptions, it often becomes a case of 'two is a crowd'. The implications for a business can be significant – in the worst cases leading to a fracture within it as two or more leaders divide to conquer.

The above is supposition, but it raises important questions about the mandate, power base, career platform and prospects of the COO. In banking, the COO is not (or very rarely) appointed as the CEO-in-waiting, but is rather someone whose skill-set and experiences complement those of the CEO. The COO's priority is to relieve the CEO of the burden of internal management, regulation, change and so on. This allows the CEO to focus his or her efforts on strategy, investor relationships, revenue creation and any aspects that directly impact the business's ability to secure or retain clients, develop new products, create revenue and drive the business forward. The

COO partners this effort by ensuring the business is compliant, controlled, and efficient. The COO will seek ways to drive down costs and deliver value to the bottom line, while the CEO focuses on the top line. Today, this contribution to shareholder value is no less important.

A unique point of reference

When you start to examine COOs as a class, one thing immediately becomes clear: There are almost no constants. People with very different backgrounds ascend to the role and succeed in it. This variability makes the job difficult to study; it's hard to know whether you are making proper inferences when comparing one COO with another.

Salespeople or marketers who have developed the tools of their trade in one company can usually apply them to good advantage in another, even in a dramatically different industry. Financial and human resource executives likewise are schooled and practiced in standard ways of doing things. But it's hard to discern whether a COO who has succeeded in one company has what it takes to be COO in another; the skill-set is neither generic nor very portable. Even within a single company, the right qualifications for the COO role can shift. Maynard Webb, COO at eBay, described for us the difference between his own technology background and that of his predecessor: 'The first COO, Brian Swette, had a job that was nothing like my job….Brian was a sales and marketing guy. He had the business units reporting directly to him and spent no time on any of my role.'

It's difficult to pinpoint the kinds of environments in which COOs thrive. While there is a general sense that COOs are most prevalent in operations-intensive businesses, they appear in every kind of company, and every sector also features firms without them. Moreover, the same organization may sometimes operate with a COO and sometimes without one. A 2003 study by Crist Associates, for example, showed *that only 17% of the corporations that promoted a COO to CEO in the previous year had replaced the COO.*

Finally, there is no single agreed-upon description of what the job entails or even what it's called. Often, companies turn responsibility for all areas of operations over to the COO—this typically includes production, marketing and sales, and research and development. In some firms, the job is to be Mr. Inside to the CEO's Mr. Outside. In others, the mission is focused on a specific business need. For example, last summer Microsoft filled the long-vacant position of COO with Kevin Turner from Wal-Mart. In announcing his appointment, the company stated that Turner was expected to use his retail experience to lead Microsoft's effort to grow the consumer products business. The most cursory survey of COO job designs shows real disparity in spans of control, decision rights, reporting structures, and the like.

It is correct to state the "the right qualifications for the COO role can shift", as this has been a necessity within banking, as much of a COO's time is now dedicated to driving change. This change agenda is defined by cost and regulation, and the role of the COO has become more inward-looking as a result.

Unlike the sentiment outlined above, generally a banking COO is not hired to build a new business or to strategically take the business on a new journey, but rather to execute the vision and strategy of the CEO and his or her principal business leaders. This is consistent, as is a deep-rooted commonality in purpose and tasks from one banking COO to another, particularly within markets. The common challenges of falling revenues, cost-ratio implications and the burden of the regulatory agenda create a single purpose. This is the reason for Armstrong Wolfe's success in getting a COO peer group around a table on a quarterly basis since 2014 to discuss common market-wide challenges. While there exists at its core shared aims and challenges, the broader parameters of responsibility and influence can vary greatly from bank to bank, reconciling with the idea that the "most cursory survey of COO job designs shows real disparity in spans of control, decision rights, reporting structures, and the like".

How can a title accommodate such diversity and still be meaningful? Answering that question requires a shift in perspective. The key is in the orientation of the role. While other jobs are primarily defined in relation to the work to be done and the structure of the organization, the COO's role is defined in relation to the CEO as an individual.

As we will explore in the following section, that relationship can take various forms. In many cases, the COO is there to help make the CEO's vision a reality. Sometimes, the COO is expected to make the CEO more effective or more complete. Often, the plan is for the COO ultimately to fill the CEO's shoes. But in all of these constructions, the CEO is the magnetic force with which the COO must align. This makes asking the question 'What makes a great COO?' akin to asking, 'What makes a great candidate for U.S. vice president?' A Southern Baptist? A foreign-policy wonk? A charismatic campaigner? A centrist? It all depends on the other half of the equation, the first name on the ticket. This, then, is why COOs remain mysterious as a class: The role is structurally, strategically, socially, and politically unique—and extraordinarily situational.

One of the challenges faced by the executive COO in banking is the dilution of the title within the sector. The key, therefore, is not just the "orientation of the role" but defining the exact authority of it, which is difficult when the title is sprinkled throughout an organisation.

Some banks have sought to address this, removing the title 'COO' from many managerial employees and replacing it with 'business manager', but even here there is still much work to be done around internal communications to ensure that the COO's mandate and authority are well understood.

Additionally, I would counter the conclusion: "While other jobs are primarily defined in relation to the work to be done and the structure of the organization, the COO's role is defined in relation to the CEO as an individual." As noted above, the COOs role in banking is largely defined by a book of work that is regulatory and cost related. This is relevant at its core, but the organisational nuances bank to bank would support the statement that the role is 'structurally, strategically, socially, and politically unique—and extraordinarily situational'.

Seven kinds of COO

If the COO role is defined primarily in relation to the CEO, and no two CEOs are exactly alike, does that mean the job simply defies definition? Not quite. What became clear in the course of our research is that the differences among COO roles arise from the different motives behind creating the position in the first place. It turns out there are seven basic reasons why companies decide to hire a COO, and these yield seven roles that COOs can play vis-à-vis their CEOs. Readers will recognize that the seven reasons are not mutually exclusive, though in this initial presentation we treat them as such.

We have touched on the principal motive for the existence, not the creation, of the banking COO, but essentially it is a fundamental building block, the foundation upon which the success of the CEO and/or the business heads is built. It is fundamental in assuring that the business operates in a controlled, compliant and increasingly cost-effective way. It is fundamental in operating as both the glue and the oil that allows the revenue generators to carry out their own roles effectively and in good order. It is fundamental in that it works well only when the partnership, the competencies and individual ambitions of the CEO and COO are aligned.

The executor

One role of a COO is to lead the execution of strategies developed by the top management team. It's simply a concession to the complexity and scope of the CEO's job today, with its numerous external commitments. Managing large, often global, enterprises sometimes requires two sets of hands; in such cases, the COO typically takes responsibility for delivering results on a day-to-day, quarter-to-quarter basis.

This is why the COO position is nearly ubiquitous in businesses that are operationally intensive, like the airline and automotive industries, as well as in organizations that operate in hypercompetitive and dynamic marketplaces like high-tech firms. At Seagate Technology, for example, CEO Bill Watkins relies on COO David Wickersham to keep the business performing at its peak. It's not that Watkins lacks an execution mindset himself; in fact, he ascended to his post after excelling as COO to the previous CEO, Stephen Luczo. But the demands of managing an $8 billion vertically integrated disk drive business are substantial. By bringing in a COO to lead and oversee the day-to-day operations, Seagate allows Watkins to focus on the strategic, longer-term challenges the company will face. CEO Watkins is clearly oriented with his 'head up' to understand success in the future, whereas COO Wickersham has his 'head down,' focused on the operational details necessary for success today.

This applies in banking to some degree, but not entirely. As we have seen, the COO is a 'pair of hands' to execute the CEO's vision. The analysis is correct in a literal sense, but not when you put this execution into context. Outside banking, COOs will take this vision and often have under them component parts of the business, such as research, marketing and sales, to carry out this strategy. They will lead the business effort, rather than supporting and facilitating it, as is the responsibility of the banking COO.

It is also important to understand what 'operations' means in the context of banking and outside it. Outside banking, 'operations' can encompass the whole institution – all departments from sales through technology to financial control. Within banking, it alludes to the support functions only. The banking COO faces inwards and downwards into 'operations', ensuring the operational platform (be it risk, finance, compliance, legal or core operations) is providing the services required for the business to operate. The COO will execute the component parts of the CEO's strategy from a banking perspective, which is somewhat different to the mandate of many COOs outside the sector.

The change agent

Just as Microsoft did when it hired Kevin Turner, some companies name a COO to lead a specific strategic imperative, such as a turnaround, a major organizational change, or a planned rapid expansion. While the mandate is not as broad as the general execution of strategy, the magnitude of the challenge demands that the change-agent COO have a degree of unquestioned authority similar to that of an executor COO. This was, in fact, what led to Ray Lane's arrival at Oracle. Larry Ellison hired Lane from consultancy Booz Allen Hamilton and tasked him with turning around the deeply troubled sales and marketing organizations. His efforts ultimately contributed to a tenfold increase in sales, from $1 billion to more than $10 billion, and a threefold increase in net profits. Similarly, AirTran CEO Joe Leonard recruited COO Robert Fornaro to lead a dramatic turnaround. The company, in Leonard's words, was 'running on fumes' and needed dramatic efforts to stave off bankruptcy.

Correct. The central pillar to a banking COO's capabilities – and the skill-set that could make or break this person's tenancy as COO – is managing and driving change and, indeed, taking this effort to the point of quantifiable benefit. This is not, however, limited to the 'strategic' as outlined above. While it is certainly important, so too is the COO's willingness to embrace operational and sometimes granular change programmes or projects. Whether the COO is managing a programme of work that will help the bank run more efficiently using its existing resources (more commonly referred to as 'run the bank' activities) or managing structural or strategic change ('change the bank' activities), having a proven ability in transformation is a critical attribute for any banking COO.

The mentor

Some companies bring a COO on board to mentor a young or inexperienced CEO (often a founder). A rapidly growing entrepreneurial venture might seek an industry veteran with seasoning, wisdom, and a rich network who can develop both the CEO and the emerging business. One could logically hypothesize that as the CEO develops, this COO role might either disappear or be heavily restructured.

By many accounts, this was what prompted the young Michael Dell to hire Mort Topfer in 1994. Dell was growing at a pace that threatened to get ahead of its founder's managerial experience. Michael Dell was self-aware enough to acknowledge that he needed some seasoned executives around, both to capitalize on the market opportunity and to accelerate his own development as a leader. Topfer was in his mid-fifties at the time and was completing a successful career at Motorola. He clearly had no aspirations of becoming the chief executive officer at Dell—he was there to help the 29-year-old Michael. We've seen very similar arrangements at Netscape, where James Barksdale has served as mentor to cofounder Marc Andreessen, and at Google, where Eric Schmidt was recruited to support the cofounders, Larry Page and Sergey Brin.

No, not in a preordained or defined manner. It is difficult to think of an example in banking when this mentoring role has been openly performed. It is true that many newly appointed CEO's rely heavily on well-established COOs – those perhaps with many more years' commercial experience. However, this is often a case of the CEO benefiting from the institutional knowledge of an inherited COO rather than the CEO perceiving the COO in a mentoring capacity, helping to develop and fine-tune her or his leadership skills. It is more likely that COOs find themselves in mentoring and cultivating roles for tomorrow's leaders. They may well lend an ear to some of the more junior business heads (perhaps even at the instigation of the CEO), but it is more likely that the COO devotes any mentoring time to the rising leadership within her or his COO and business management function.

The other half

A company may bring in a COO not as a mentor, but as a foil, to complement the CEO's experience, style, knowledge base, or penchants. Observers have viewed the relationships between Bill Gates and two of his previous COOs, Jon Shirley and Michael Hallman, in this light. Jon Shirley, according to one observer, provided a 'calm, self-effacing balance' to Gates's brilliant and often intimidating affect. In such cases, the COO role is usually not meant to lead to a higher position—but sometimes it is. When Ken Freeman, now a managing director of Kohlberg Kravis Roberts, was CEO at Corning spin-off Quest Diagnostics, he deliberately sought an heir with a different collection of skills than his. He ultimately hired Surya Mohapatra just when Quest was closing a deal to acquire another large testing business. 'I thought, in a company that was going from $1.5 billion in revenues to $3.2 billion,' he explained to us, 'it would be helpful to have somebody around that had strong health care experience—especially given that I had grown up in the glass business!'

This is a cornerstone of the assessment and selection process: the COO and CEO must together make a whole, their skill-sets complementary and well honed, their ambitions aligned and not in competition. Where the CEO lacks proven capability, interest or time, the COO's abilities, focus and allocation of time and effort should fill this gap. Certainly "in such cases, the COO role is usually not meant to lead to a higher position", as we have already described. Playing 'second fiddle' is a position to be embraced and celebrated by a COO in this context, a choice they make knowingly. They are the 'foil' – the equivalent of the ADC, the right hand to a senior military officer – and can be the sounding board, the quiet voice of reason, the calmness marrying well to the bravado and bombastic confidence possessed by many leaders, the communicator of policy, the go-to person to get things done.

Perhaps this point is best understood by looking at the literal meaning of the word 'foil' as defined in the Oxford Dictionary: "Foil: a person or thing that contrasts with and so emphasizes and enhances the qualities of another."

> *"My role is to take away the noise from the head of the business; to undertake many tasks he will never know I have done; to execute his vision and ensure in doing so that he looks good and is bulletproof in this process. To this end I am his foil, advisor, protector, junior business partner and confidante."*
>
> GLOBAL COO, RATES AND FX

The partner

Sometimes, the CEO is simply the kind of person who works best with a partner. This can lead to what's been called a 'two in a box' model and is similar to what authors David Heenan and Warren Bennis have termed 'co-leadership.' Indeed, Heenan and Bennis contend that more companies should create and cultivate co-leadership arrangements. But it's probably true that, just as there are doubles specialists in tennis, only some executives are more effective when paired. In any case, Michael Dell and Kevin Rollins, whom Dell introduced as COO in 1996, seem to operate in this mode. Dell, as chairman, and Rollins, now as CEO, are committed to leading the firm together, even choosing to 'co-office' in adjoining work spaces separated by only a glass partition.

The partnering scenario is highly relevant to the banking COO. Many banking COOs have their office next to their 'manager', with a glass petition separating them. They feel this physical arrangement – having the COO close by and visible – is a necessity, as banking is prone to immediacy and dynamic changing circumstances. 'Partnering' is not likely to follow the evolutionary process of Michael Dell and Kevin Rollins, with a CEO moving to become chairman and the COO being promoted to CEO. What does occur frequently in banking, however, is the COO following her or his manager as the latter secures promotion. In this scenario the COO is valued highly by the business head:

> *"My COO knows me inside-out, knows how I work, how best to work with me and navigates a path to ensure our skills are best utilised and have become perfectly complementary. It helps an awful lot that we get on, are not friends outside*

work, but have a chemistry, sharing common values, a common sense of humour and a joint ambition to be the best at what we do."

FIXED INCOME BUSINESS HEAD

The quote above offers an interesting insight, as it insinuates that their competencies have become complementary, a by-product of time and working together, as opposed to this complementary fit being understood or known at the outset. It takes time to cultivate a successful CEO-COO working partnership, and having a joint ambition encourages a strong partnership that works towards success. Head of fixed income is a senior (and serious) executive role in banking, but the ambition for this business head would perhaps be to become CEO one day (of markets), and his or her COO would see this as a path to becoming the COO to the CEO of markets. The risk in this strategy for the COO is nailing their colours to the mast of their present manager, for if they fall out of favour, the COO is left exposed. There are examples where the loss of a career patron has been detrimental and damaging to further career advancement.

The heir apparent

In many cases, the primary reason to establish a COO position is to groom—or test—a company's CEO-elect. The broad purview of the job allows an heir apparent to learn the whole company: its business, environment, and people. Recent examples of firms using the COO position to develop the successor to the CEO include Continental Airlines, where CEO Gordon Bethune (who himself originally joined the airline as COO) recently passed the torch to his COO, Larry Kellner. Similarly, in the time after Rex Tillerson was appointed to the number *two position at Exxon, observers noted that he was increasingly exposed to the public—a deliberate effort to facilitate his succession to CEO Lee Raymond. And when Norfolk Southern appointed Charles Moorman as second in command, the transportation company touted him as the heir, continuing its avowed 'practice of picking an executive young enough to lead the company for at least a decade.'*

Certainly, being identified as a likely heir does not represent anything approaching a guarantee. On the one hand, an otherwise valuable senior executive may leave if the top job ultimately goes to someone else—or isn't offered soon enough. On the other hand, the COO's performance can indicate that the heir title was inappropriately or prematurely bestowed. In the past few years, we've seen several prominent COOs who seemed to be on the glide path to the CEO's office instead leave their companies; they include John Brock (Cadbury Schweppes), Mike Zafirovski (Motorola), John Walter (AT&T), and Robert Willumstad (Citigroup). Regardless of whether each left because he was passed over for the CEO position, because the timing was not as advertised, or because he found greener pastures, the succession plan unravelled.

Within banking, and specifically within the financial markets, the COO is rarely (if ever) appointed as the 'heir apparent'. The skill-set and experiences of banking COOs are matched with the tasks for which they will be responsible, not based on their potential as a business leader. As such, you would not assess a potential COO on any future need for them to deal directly with clients and investors, or on their experience in aspects of business risk management. However, you would assess them directly and – my experience suggests – solely on being able to do the job at hand, namely that of the COO.

If a markets' COO has been appointed from within the business, that person is supported by a Chief Administrative Officer (CAO). This appears to be window dressing, to allow the position of COO to be used as a stepping stone to career progression, or perhaps offered as emotional compensation if a senior member of the business has lost out in the fight for promotion elsewhere. The CAO becomes the buffer and the executor of most of the tasks in the COO's in-tray, as the CAO will have the relevant skills to deliver on these tasks. This of course means that the COO is not directly exposed to the minutiae of the role, and in reality the CAO is the COO in all but title.

The MVP

Finally, some companies offer the job of COO as a promotion to an executive considered too valuable to lose, particularly to a competitor. This appears to have been the case at News Corporation's Fox Entertainment Group subsidiary. It recently announced that its president and COO, Peter Chernin, had signed a new employment agreement preventing a rumored move to rival Disney. Similarly, when McDonald's restructured the roles of its U.S. and Europe presidents during the summer of 2004, that was interpreted by analysts as an effort to ward off poachers. With this strategy, an organization may try to hedge its bets by stopping short of identifying a specific heir or setting a timetable for leadership succession, in an effort to keep its high-potential executives intrigued about what the future might hold for them, should they stay on board.

This does not appear to be a type of COO, but how you can use the appointment to achieve a specific, non-core business-related objective. Using the role as 'emotional compensation' or as a 'sweetener' is a tactical rather than strategic use of the role. It may well fulfil the short-term need to keep a specific senior person happy, but this only parks the problem. More importantly, it sends a confused message to the business about how the position of the COO is perceived and valued. Those who have dedicated their careers to business management and to advancement within the COO community may see this tactical use of the position as disrespectful. They will know that the appointee does not have the prerequisite skills to be successful in the role and that company politics has played a part. This is particularly the case where a CAO is appointed and becomes responsible for fulfilling the COO's responsibilities.

Elusive lessons

In truth, as we've said, the seven roles are not mutually exclusive. Though it's hard to imagine a single person wearing several of these hats all at once, it's quite possible that a COO could wear two of them simultaneously. Understanding the roles distinctly, however, and considering their differences reveal a few things clearly.

First, the typology we've outlined makes it easy to see why COOs have been hard to investigate in any scientific sense. Even where studies have been done, it's often impossible to draw useful lessons from them. For example, one of the few empirical examinations of the role was conducted by Donald Hambrick of Penn State and Albert Cannella, Jr., when he was at Texas A&M. As they reported in the October 2004 issue of Strategic Management Journal, a review of ten years of data on 400 companies showed that firms with a CEO-COO structure had underperformed relative to their industry peers. It's a provocative finding, but its implications are far from apparent. Is the structure itself to blame? Or was a COO hired to compensate for a weak CEO? Put another way, is the COO part of the problem or part of the solution? Hambrick and Cannella offered both explanations, and other theories could be constructed. Our work suggests that divining answers from such broad surveys is inherently difficult because the nature of the COO job is so deeply contextual.

Second, knowing the variety of roles that COOs play sheds light *on the phenomenon of the 'vanishing COO.' Some observers, counting the instances of companies declining to fill vacated COO spots, have concluded that the position is headed for extinction. After a COO departs, it often appears that his or her duties have been divided up among top managers without much disruption. When Steve Heyer left Coca-Cola, his responsibilities were dispersed in this fashion, and the position was not filled. When COO Gary Daichendt left Nortel Networks (after just three months), his tasks were assumed by the then CEO, Bill Owens. But the job is oftentimes reinstated or created in a company that didn't use it before. At Microsoft, for example, rumors of the COO job's death turned out to have been exaggerated. Although it sat idle for several years after Rick Belluzzo's departure, it was revived when Kevin Turner was hired.*

Finally, the tremendous variation in COO roles and responsibilities manifestly implies that there is no standard set of 'great COO' attributes. This makes finding suitable candidates difficult for executive recruiters (as one of the authors can attest). More important, it stymies the CEOs and boards who must select among the candidates. The existence of seven different roles suggests at least seven different sets of attributes on top of the basic—and infinitely variable—requirement that there exist a personal chemistry between the COO and the current CEO.

In this book we investigate the evolving role of the banking COO and, more specifically, the COO within markets. The paper we are quoting from here, written in 2006, is a retrospective view on the role and situational circumstance of the COO, but research suggests that outside banking, much of what the paper summarises so succinctly and supports with extensive market examples, remains the same. Since 2006, however, banking has experienced the genesis and evolution of the COO role, followed by a period of reflection and then one of further evolution. The banking COO is here to stay, but is changing to meet the demands placed on it –

unlike the suggestion above that the COO role is struggling to find its footing and may be 'facing extinction'.

There are a variety of COO roles within banking, but at heart they are similar from one bank to another. While some COOs could move from outside banking to an aligned business – within an asset management company or a hedge fund, for example – they remain in the broader financial services sector. Therefore, a standard set of attributes arguably exists for the role of the COO within the banking sector. What differentiates the role is that it is not the springboard to promotion to lead the business, which might lead to potential jealousies that could inhibit the COO-CEO relationship. With this in mind, the COO selection process is based on a well-framed technical skill-set and demonstrable experience. Perhaps more challenging is finding the 'right' person with a personality that will work with that of the hiring manager and influence how quickly trust can be built.

The underpinnings of success

Even though the role is so contingent, we have identified some success factors that came up consistently in our interviews with executives in widely varying situations. The single element most critical to the success of a CEO-COO pairing, we quickly saw, is the level of trust between the two individuals. To speak of trust is almost a cliché, but the vehemence with which our research participants stressed it suggests they consider it more crucial here than in any other business relationship. Wendell Weeks, who rose from COO to CEO at Corning, referred to the need for a 'true partnership, in every sense of the word.' The trust has to be absolute, he said, 'because there are those in the organization who are always seeking to drive wedges if they can.' Other executives specifically used the metaphor of having one another's back. Hearing their comments, we were reminded of Harry Levinson's insightful 1993 article, 'Between CEO *and COO,' in the Academy of Management Executive. In it, he wrote, 'The relationship…is fraught with many psychological complexities. Perhaps it is the most difficult of all organizational working relationships because more than others, it is a balancing act on the threshold of power.' Levinson went on to explore the dysfunctions that can arise in such situations: unhealthy rivalries, defensiveness, over-control, rigidity, misconceptions, and doubt.*

How can a pair of executives get past such perils and develop an extraordinary level of trust? Again, consistent themes in our interviews suggest the answer. The CEO must feel certain that the COO shares the vision, is not gunning for the top spot, and can get the job done. Conversely, the COO must be sure that the CEO will provide whatever is needed to do the job, will not put any obstacles in the way, and will not thwart future career advancement. Let's explore this question more fully, framing it in terms of what each party owes the other.

Trust lies at the heart of any COO-CEO relationship. The bridge of confidence between two people operating together with separate yet united agendas is essential for this relationship to work. One must presume this trust is in place from day one, but it is also earned and reinforced with time and consistent delivery. From the start a level of trust exists from a professional perspective – an expectation that comes with the rank and responsibility, from prior experience which sets levels of expectation. With time this trust becomes deeper and stronger. Trust goes hand in hand with reliability; reliability is based on a consistent record of delivery and is enhanced by effective and on going communication between the two parties.

What the COO owes the CEO

True respect

Because a chief executive relies so heavily on the second in command to accomplish mission-critical goals, it's essential that the COO wholeheartedly believe in the CEO's strategic leadership. Chief operating officers, by virtue of their inherent talents and their organizational position, are highly visible and powerful. If the COO is not aligned with the CEO's vision, or not convinced that the CEO can find the best path forward, then that lieutenant is capable of real mischief. Dan Rosensweig, COO at Yahoo, described for us the hours he spent talking with CEO Terry Semel before joining the company. Rosensweig invested the time because, in his words, 'you have to get in sync with the CEO. If you have an agenda that is different than his or hers, you will absolutely fail the company.'

An ego in check

In the interviews we conducted—particularly those with COOs—we heard repeatedly how critical it is for seconds in command to check their egos at the door. It's a tricky balance to achieve, given that COOs must obviously be self-confident leaders. 'You have to lead while serving,' stressed eBay COO Maynard Webb, immediately adding, 'It has been the hardest job that I have ever done.' Interestingly, he then followed up with another reason why the job is hard: 'It is not as immediate with gratification as any of the line jobs that I had. When you are solving technology issues, such as is the site up or not, it is pretty black and white, and you see some of the results pretty quickly. But you are working on things through a lot more layers as COO, and the results come much slower.' These sound like two very different reasons for a job to be hard, but we suspect they may be intertwined. Often, the results do come more slowly—and often they come in a way that makes their proper attribution *more difficult to discern. Regardless, the COO is not necessarily in line to receive the kudos for a job well done.*

An eye on execution

Back in the 1990s, people in organizations jokingly picked up on a phrase from the television series Star Trek: The Next Generation. In it, starship captain Jean-Luc Picard, having settled on a course of action, would simply instruct his crew to 'make it so.' CEOs in general can't quite get away with that, but to the extent that they are focused on strategy, they rely on COOs to oversee much of the implementation. They must be able to trust that they can afford to address longer-term and bigger-picture issues because their second in command will maintain a focus on the here and now. Even COOs who are not primarily playing the executor role should have an execution mindset and a bias toward action.

Coaching and coordination skills

A COO must be able to direct and coach others throughout the business. Steven Reinemund, now chairman and CEO at PepsiCo, gave us his thoughts on the challenge. He was promoted to COO after having led a business unit and, he told us, 'I had to think long and hard about whether I really wanted to move out of running the day-to-day business into a role where I coach and coordinate.' Being a division president, he explained, 'is a hands-on job. You get to mold the strategy; you get to direct the efforts every day. You have the functional people that you work with, and that team performs against a mission, and it is an exciting experience.' The COO job, by contrast, requires an individual who 'can step out of doing day-to-day, hands-on directing and leading of a business, and direct and teach and coach others.' Again, regardless of which of the seven roles a COO plays, the CEO must be able to trust that these skills are in place.

Communication

The COOs we spoke with understood that the onus was on them to embrace the CEO's strategy and work to make it real. But no one can execute against a plan that's not being communicated clearly and directly. CEOs constantly have fresh thoughts with operational implications; they must be in the habit of discussing those with their COOs without delay. Ken Freeman told us how he and Surya Mohapatra kept the lines of communication active at Quest Diagnostics. 'Sunday at 4:00 pm became the time for us to have lengthy discussions….We would see each other at the office, too, of course, but there we would be scurrying around working on the integration of the [merged] companies, driving the company's performance, and making things go. We had each other's undivided attention via telephone starting at 4:00, virtually every single Sunday for five years.' Another CEO we interviewed admitted an early mistake: locating his new COO's office in a separate building, thereby failing to capitalize on the rich communication afforded by physical proximity.

CEOs constantly have fresh thoughts with operational implications; they must be in the habit of discussing those with their COOs without delay.

Clear decision rights

To a person, the executives we interviewed stressed the need for explicit and reasonable lines of demarcation between CEO and COO responsibilities. While there was no consensus on what exactly should be part of each job, everyone agreed that the matter had to be sorted out at the start of the relationship. It's far easier to delineate boundaries when the two individuals clearly have complementary competencies and each naturally gravitates to different areas of expertise. The greater the overlap in competencies, the greater the likelihood that the COO might *feel (perhaps accurately) that the CEO is micromanaging and second-guessing decisions. Such behavior on the part of the CEO communicates to the COO a lack of trust that is likely to engender friction in the relationship. When we raised this point with Bob Herbold, another former COO at Microsoft, he responded: 'To me, this is a key issue. The way it gets worked out is the individuals—through trial and error, as well as through discussions—figure out who is going to be doing what and who needs to check with who on key decisions….How the pair will make that happen needs to be agreed to very early in the relationship.'*

A lock on the back door

Obviously, the creation of the COO role adds a layer of management; executives who previously had direct access to the CEO now have an intermediary to address. One of the COO's first challenges is to develop relationships with direct reports that discourage them from seeking backdoor access to the CEO. At the same time, the COO must depend on the CEO to block efforts by those who might want to circumvent the position. This is not to say that restricting access to the CEO is the goal. Ed Zander, now CEO of Motorola, previously served as COO of Sun Microsystems under Scott McNealy. Zander says the two made it clear that any of the COO's direct reports was entitled to go to McNealy to talk about things. But the lines of responsibility were still respected. 'One thing that Scott did very well was to never undermine me,' Zander told us. 'He always backed all my decisions. He would hear people out but then send them to me.'

A number of the people we interviewed noted how much personal discipline is required on the CEO's part to maintain this kind of line. 'I have been working on nailing that back door shut for a while,' eBay COO Webb told us. 'I think it is a tough, tough thing to do, especially when you have a CEO that actually loves to get involved in problem solving and wants to help. I think what you have to do in that case is to enable, not control, communication and be transparent.'

A shared spotlight

Without exception, the COOs we interviewed accepted the fact that their job was to make the CEO successful—and that in doing so they in many ways rendered their own contributions less visible. But, especially for COOs who aspire to the top job, that creates a dilemma. Jim Donald, president and CEO of Starbucks, noted that what gets executives to the role of president and COO 'won't necessarily earn them a CEO role. Once you are in the COO role, you have to…broaden the network of things you do. You need to work with the board, work with the CEO, and work to lead others to be successful.'

It falls upon the CEO's shoulders to make sure that this development takes place and to share the spotlight whenever appropriate. If the CEO is not deliberate about this, then the board will have no reason to be impressed by the number two, who may then prove ultimately unpromotable. Kevin Sharer, who was COO at Amgen before he became CEO, lays heavy emphasis on this point. He told us that the success of the CEO-COO relationship is '75% dependent on a few things that the CEO does.' He framed those things for us as a series of important questions:

Does the CEO give the number two real authority, real operating responsibility, power that is real, power that is seen by the rest of the company as real? Second, does the number one actually encourage and let the number two person have his or her own voice in board meetings and operating reviews? Third, does the CEO give coaching, counselling, and really see the success of the number two as part of the company's success?

"What the COO owes the CEO" is a statement, but based on the extract above it should be turned into a question – perhaps a rhetorical one. If you step back and look at any relationship, in or out of commerce and the workplace, the fundamentals that make it work are trust, communication, respect, interdependence, honesty and acknowledgement. The 'hand-in-glove' nature of the CEO-

COO relationship means that all these factors must be there to make it work. Like any relationship, investing time with each other up front does not guarantee success or longevity, but it does enhance the chances of them. This is confirmed by Dan Rosensweig, former COO at Yahoo, as he "described for us the hours he spent talking with CEO Terry Semel before joining the company".

It is thus surprising how little time some banking business heads spend directly with their potential COO before extending an offer of employment. They tend to undertake an introductory interview (some even get an internal third party to do this initial screening), then socialise preferred candidates through peer and peer-plus-one interviews. They rarely allocate adequate time to get to know the person they are about to appoint – arguably their most important team member. The flip side of this is that prospective hires appear to be happy with this superficial selection process and take a leap of faith based more on their self-appreciation of the role and the steadfastness of the company they are about to join than on a focused assessment of the person with which they are agreeing to work.

In banking, 'ego' is an attribute that has had plenty of media attention, and much of this is deserved. In my experience as an executive search consultant, the best relationships are built with those who respect what I do and my ability to find the best person for them. The clients understand the importance of partnering their search consultant to understand exactly what they are looking for and do what is necessary to expedite the process. The banking industry, however, still sadly includes a small pocket of self-important senior managers. It is generally these people who struggle with the hiring process, as they have a poor reputation in this small marketplace, and they rarely spend the necessary time with the search consultant up front or in communication within the process to find success.

There have been a number of occasions in recent years when such senior managers have found themselves out of work, redundant, some coming cap in hand looking for help. Some take the fall graciously and develop the necessary humility to find success in the future. Others do not. Such egos have no place in modern banking, where conduct, integrity and decent human behaviour are expected of the industry's leaders.

Finding someone who can keep their ego in check, understanding the need to 'lead while serving', is therefore key to the behavioural assessment undertaken by the search consultant and the interview panel. Similarly, much of what a COO does goes unnoticed. Often it is not until business heads lose their COO that they realise the innumerable tasks – some of them menial – the COO performed without seeking acknowledgement. A good COO can wait for the mid to long term to see their efforts come to fruition.

This is also relevant to the CEO's attitude. "They must be able to trust that they can afford to address longer-term and bigger-picture issues because their second in command will maintain a focus on the here and now." This is more important than ever in banking, when the immediate demands of the regulators and the dynamic nature of the banking industry means that the COO is the executive resource dedicated to keeping the business operating day in and day out, while paying secondary reference to the mid- to long term. The long-term strategy, the CEO's vision and its execution, however, will be passed to the COO. Juggling the two demands is a skill the COO must possess to be successful.

"I had to think long and hard about whether I really wanted to move out of running the day-to-day business into a role where I coach and coordinate." This extract from the article is not so relevant to the considerations of most career business managers and COOs, as talent management has been a principal responsibility within various roles leading the COO appointment. This is an area in which they have proven capabilities as well as a deep-rooted interest. The COO job, by contrast, requires an individual who 'doing day-to-day, hands-on directing and leading of a business, and direct and teach and coach others."

What the CEO owes the COO is time: time dedicated to making their relationship work; time allocated to developing effective communication channels between the two, where often in banking their offices are separated by only a glass panel to "capitalise on the rich communication afforded by physical proximity"; time up front and ongoing to ensure 'clear decision rights' are understood and allocated. The banking industry and its leaders are generally good at such commitment, as the need to provide it drives this dedicated approach. Within banking, where the career COO is well established, delineation of responsibilities between the CEO and COO is required and usually agreed at the outset, ensuring each can deliver within demanding, often highly visible roles, whether internally and externally.

Much of the above can be achieved up front through an effective hiring process, and this investment in time will pay dividends. Making sure that both parties understand there are aspects of ambiguity, with changing boundaries, will help both cross these hurdles when they arise – but only if supported by active post-appointment communication, which should lead to the two working in a complementary fashion. As Bob Herbold, a former COO at Microsoft, notes above: "To me, this is a key issue. The way it gets worked out is the individuals – through trial and error, as well as through discussions – figure out who is going to be doing what and who needs to check with who on key decisions….How the pair will make that happen needs to be agreed to very early in the relationship."

This relationship is helped hugely if the CEO is clear in his or hercommunication and support of the COO role and where it sits in the hierarchy. Supporting the COO at all times, despite the undoubted challengers to the CEO's authority, is key to the sustainability and authority of the banking COO, especially as so much depends on the person's influencing skills, leveraging the indirect authority gifted to them through the CEO. This is made more complicated in many banks – notorious for their politics – where product and business lines vie for influence and attention as much as the regions and locations. 'Locking the back door' to not always well-meaning managers seeking an audience with the CEO or head of business is a constant challenge for any COO, but even more so for the banking COO: "One of the COO's first challenges is to develop relationships with direct reports that discourage them from seeking backdoor access to the CEO. At the same time, the COO must depend on the CEO to block efforts by those who might want to circumvent the position." The skill-set required here is perfectly summarised as followed: "I think what you have to do in that case is to enable, not control, communication and be transparent."

As previously noted, difficulties can arise when equally powerful, influential and impactful leaders seek a share of the spotlight. This can be overcome, however, and the glory can be shared, when the CEO's recognition and taking the plaudits are externally oriented, as opposed to the COO, whose is likely to only gain internal praise. As banking COOs do not generally aspire to the top job, the fact that their contributions are not as visible as those of the CEO is less relevant. However, this does mean that the CEOs then face the difficulty of fulfilling their COO's career aspirations: 'What next?' is a question any COO is going to ask after they have been in this position for some time. Therefore, most – if not all – banking COOs would agree with the following statement in the article: "Without exception, the COOs we interviewed accepted the fact that their job was to make the CEO successful – and that in doing so they in many ways rendered their own contributions less visible. But, especially for COOs who aspire to the top job, that creates a dilemma." The three questions further raised also lend themselves to the analysis in another essay investigating the difference between COO and CAO (see page 83):

- Does the CEO give the number two real authority, real operating responsibility, power that is real, power that is seen by the rest of the company as real?
- Second, does the number one actually encourage and let the number two person have his or her own voice in board meetings and operating reviews?
- Third, does the CEO give coaching, counselling, and really see the success of the number two as part of the company's success?

A role on the rise?

Ask anyone who has worked as or alongside a COO—the job is demanding. Now we know it's unique, as well. Perhaps that's why COO is the only C-suite title to which there is no magazine devoted. It's a trivial observation but perhaps a telling one; the common set of issues and interests that would imply simply does not exist.

Is it a role in decline? Some observers, as we have said, certainly think so. The Hambrick and Cannella study, for example, found a 22% decline over ten years in the number of firms with executives holding that title. Yet in the last few years, companies in a wide range of industries have announced new COOs, including Microsoft, RadioShack, Airbus, Allstate, KPMG's U.S. subsidiary, Alcatel, Chiron, Nissan, BellSouth, Comcast, Eli Lilly, Apple, and Medtronic.

We can easily argue that there is a growing need for the role. First, *consider the widening scope of the CEO's job. Today, we have bigger companies, with expanding global operations, aggressively pursuing acquisitions. CEOs are asked to be public figures, communicating with many constituencies at the same time that increasingly democratic and knowledge-based organizations require them to spend a great deal of time campaigning internally for any change they hope to make. Second, companies are becoming more deliberate about succession planning. Boards are anxious to identify and groom heirs and often see the COO title as a useful step in the process. Finally, the easy mobility of top talent means companies must find ways to hold on to their most valuable non-CEO executives. The COO title can be effective in staving off wanderlust.*

In light of these trends, it's surprising that COOs are not more common. Our suspicion is that they would be if there were less variability and confusion surrounding the role. Board members aren't sure when the position will add value. Recruiters don't have an obvious pool to tap. CEOs don't know whom to trust. Potential COOs don't know whether the job is right for them. This is why it's vital to build on the work we've outlined here. As we continue to demystify the role of the COO, more companies will benefit from more effective leadership.

The rise of the COO

Does your company have a COO today? What role does he or she play in the organization? Does your COO have the best shot at becoming the next CEO? The answers may not be as self-evident as many executives think.

That's what we found when we studied the top management teams of companies in Europe over the past three years. Few European companies have COOs, although their numbers appear to be growing. Of the 97 largest listed companies in the UK and the Eurozone in 2010, only 37 had a COO in their executive ranks.

Appointing a COO is a recent trend on the continent. Only two of *the 37 organizations we studied had appointed more than two COOs in their history; in 27, the current COOs had only one predecessor; and in the remaining eight corporations, the incumbents were the companies' first COOs. COOs are relatively common in service industries such as financial services, energy, information technology and telecommunications, but in manufacturing sectors — such as automotive, chemical, and pharmaceutical companies — they are relatively rare.*

Most COOs in Europe are seasoned executives; they were 48 years old, on average, when they were appointed. There was quite a range, though: the youngest in our sample was 32 years old when he became COO, while the oldest three took office at the age of 58.

There appears to be a correlation between age and tenure; executives usually needed to be veterans of the same company if they were to become COOs. The COOs in our sample had worked in the same company for 12 years, on average, before their appointment. A majority of companies — 33 of 37, to be precise — recruited COOs internally.

COOs in Europe are, distressingly, predominantly male, with only one female COO in the companies we studied. Part of the problem may be in the backgrounds that companies desired: 85% of COOs had experience in operations, strategy, or finance. In several industries, such as consumer goods, financial services, industrial products, and logistics, COOs usually had backgrounds in either managing operations or information technology departments. Almost half of the COOs we studied had business degrees and around a third had engineering degrees.

The COO's role, we find, is driven by three factors: the company's strategy, the composition of the executive team, and the relationships between the members of the top team. In contrast to previous studies, we didn't find evidence that the COO's role is determined entirely by the CEO.

With markets shrinking and cash flows declining, COOs have built their credibility in most companies by focusing on operational efficiency and helping to meet their margin goals. This has helped improve their *standing; COOs are increasingly becoming responsible for rolling out transformation agendas.*

It still doesn't seem necessary to be a COO in order to take over as CEO, though. When we analyzed the careers of all the incumbent CEOs of the companies in our sample, we found that only 23 of them had previously been COOs. But, with COOs increasingly landing key assignments because the office lies at the intersection of strategy and operations, we feel that not promoting them to the top job may be a missed opportunity. What do you think?

The investigation into the role of the COO above is interesting and relevant, as it demonstrates largely how the COO role, if used correctly, can be empowered to enhance the CEO's ability to do his or her job and, if operated in a true partnership, benefits both parties, with the real beneficiary the company itself.

Within banking, the role is no longer on the rise – it has arisen and is embedded as a key leadership role within almost all banking companies. If anything, there are now too many COOs by title, which has led to a dilution of significance of the title (although this is being addressed by some banks). What is more important is that the role is a recognised mandate of authority at the top table, which the new regulatory era has ensured.

What echoes from the past within these closing comments is the paragraph that states: "With markets shrinking and cash flows declining, COOs have built their credibility in most companies by focusing on operational efficiency and helping to meet their margin goals. This has helped improve their standing; COOs are increasingly becoming responsible for rolling out transformation agendas." This is the same scenario in which the banking industry and its COOs find themselves today, some ten years on from when this article was written. 'Transformation' is a key skill for all COOs, where change and the change agenda are driven almost without exception by two things: a) cost and b) regulatory change. With falling revenues, most industry's leaders would say this challenge alone is enough, but coupled with an intensive and highly intrusive regulatory agenda, the strength of the industry's COO cadre is under severe scrutiny. COOs will largely be responsible for navigating the industry through these stormy seas to calmer waters. So how do we conclude our thoughts on the role of the banking COO versus that of the COO outside it?

"Does your company have a COO today?" Yes, too many, but through time and endeavour the role will be further defined. It is the cornerstone of any bank's leadership team, where no defined route to appointment exists, but a common framework of skills and experiences is evolving that matches the demands of the role today.

"What role does he or she play in the organisation? Does your COO have the best shot at becoming the next CEO?" No, hardly ever, and that is not the intention. Unless supported by a CAO carrying out the COO role in practise, the role of the banking COO demands a very different skill-set. More junior COOs can and perhaps should be used as staging posts for the future business heads, but the executive COO, whether group or more specifically the markets' COO, should follow a career path through many of the bank's key areas of operation, not limited to roles focused on and judged by revenue creation.

"With COOs increasingly landing key assignments because the office lies at the intersection of strategy and operations, we feel that not promoting them to the top job may be a missed opportunity." This is a confident and forceful conclusion. But it misses the point of the banking COO, as the career business manager or COO rightly perceives that being appointed the global COO is the top job, the top job within the career they have pursued and a position to which hundreds or even thousands aspire. If understood, then the only missed opportunity is where business heads or CEOs fail to understand how to select, hire, manage and develop the right relationship with their COO to maximise individual, collective and corporate success.