In recent months, COOs have seemed more like heirs-apparent than benchwarmers. Richard Parsons at AOL Time Warner, Hector de Ruiz at Advanced Micro Devices, Samuel Palmisano at IBM, David Brown at Owens Corning, and Keith Rattie at Questar have each made the leap from chief operating officer to chief executive officer.

The advancement of COOs is potent proof that they are now an important feature on the corporate landscape. Yet as the spotlight on the CEO’s job grows ever brighter, the number-two slot remains in the shadows. Just how important is the COO role in a modern corporation? Is it largely decorative or vital to corporate performance?

Step into the shadows, though, and you quickly discover that not all COOs are created equal. For some companies, the role is indeed a stepping stone to the top job. Others interpret it as a purely operational position. What research has been done on COOs also suggests that the jury is still out on the contribution they make to corporate performance.

The job title can be traced back to the 19th century though it really took off in the corporate world in the 1970s. In the mid-1980s, CEOs began to acquire shadows as surely as cacti in the desert. A Princeton University study of 433 large US corporations found that in 1964 none of the companies had a COO. By 1994 more than two-thirds did. Today the COO is an institution in major corporations.

“The CEO is the outside voice of the company and the COO is the internal voice,” observes Chuck Wardell, a managing director at headhunter Korn/Ferry International. “In many cases, the COO will be the informal sounding board up and down the organisation. He or she serves as a buffer and broker to the CEO.”

Someone to actually run things

But what prompted the creation and rapid spread of this executive role? In part, believes Princeton researcher Frank Dobbin, the spread of COOs was driven by corporate fashion.

“David Rockefeller appointed a COO at Chase Manhattan in 1975 and this clearly influenced a number of other firms,” he says. “In the 1970s, it was mostly very profitable firms that appointed COOs; they did so because they had the luxury of creating another costly executive position that could take some of the pressure off the CEO. In those years CEOs were expected to focus on acquisitions and long-term planning. Once a
group of high-profile, highly profitable firms had COOs, investors came to associate them with success and came to expect any forward-looking, successful firm to have a COO.”

The gradual development of the role, however, suggests that the COO title is more than a passing fad. What began as a luxury became a necessity.

One reason is that appointing a COO became an accepted part of a company’s development. As firms grow, the size and scope of the executive function expands. Once companies reach annual sales of around $50m, the introduction of a COO tends to be justified by the complexity of the revenue streams. Bringing in a COO is a means of keeping pace with the growth of the executive function and reining in growing complexity.

Similarly, the rise in COO numbers is attributed to the growing demands placed on CEOs. In particular, as the top job has become more finance-dominated in many companies, operational responsibilities are more likely to be delegated. This was particularly the case during the dot-com boom when CEOs had to increasingly focus on managing analysts, Wall Street and venture capitalists. They needed someone to handle the day-to-day running of the business. Enter the COO.

“It was almost a return to the railroads – with huge capital requirements and operational complexity – and often the technology is so sophisticated the CEO couldn’t comprehend it,” says COO researcher Donald Hambrick of the Smeal College of Business Administration in the US. “Some of today’s capital-intensive industries or technologically complex industries might be seen as modern counterparts to the early railroads”.

The presence of COOs in the boardrooms of many high-achieving high-tech companies also gave the position a degree of glamour that it had not previously enjoyed.

What do COOs actually do?

The growth in COOs enables organisations to split the senior executive roles. The operational role allows other executives – usually the CEO and chairman – to focus their attention on more strategic issues.

This has produced the stereotype of the COO as a safe pair of executive hands dealing with the nitty-gritty of the business while the CEO ponders the grander things in corporate life like managing the increasing demands of the media and investment community. Like most stereotypes, this possesses a kernel of truth.

Princeton’s Dobbin believes the role has changed over time. “Early COOs were responsible for day-to-day operations,” he says, “leaving CEOs free to do long-range planning and to raise funds for acquisitions. Increasingly, however, as investors came to favour firms with a clear focus over highly diversified firms, the CEO took back the reins of production and sales decisions.”

Felipe J Alvarez, COO of Con Edison Communications, likens the role to executive maintenance. “The most basic explanation of the COO’s job is taking care of all of the day-to-day running of the company,” he says. “You turn up service for the customer and keep it up and running. It’s an operational job. So I sometimes describe myself as someone running around a factory floor with an oil can in my hand.” Alvarez is typical of the new breed. A 42-year-old MBA graduate with a sales and marketing background, he knows the company’s business inside out, having been one of the initial trio involved in its inception. For Con Edison Communications, the need for a COO emerged through the sheer complexity of rolling out a fibre-optic network in New York City. Alvarez took on the role at the beginning of 2000. He describes himself as the organisation’s lightning rod.

Alvarez and Peter Rust, Con Edison Communications’ president and CEO, divide their roles fairly conventionally. “Peter and I have always been clear about the different disciplines of the respective jobs. The CEO focuses on external things such as managing the investment community, long-term strategy, where we’re going, mergers and acquisitions, opportunities, overall vision, leadership, how we’re positioned,” Alvarez explains. “That doesn’t mean I don’t do external things but most of the external things I deal with are customer-facing: helping close a sale or working with customers who’ve had a problem.”

He regards the COO’s role as making the company’s vision operational but warns of the dangers of becoming mired in the complexities of delivery: “It can be very internally focused if you allow it.”

Managing the studio

The COO works in an uncomfortable corporate hinterland. This is reflected in the
array of different job titles for much the same role. One company’s COO is another’s chief administrative officer, chief of staff or executive vice-chairman. Normally, if someone has the title president and no other title then he is probably operating as a COO.

Whatever the semantics, the COO works at the point where corporate strategy is delivered. While the title suggests a focus on operations, the reality is that the COO slot requires a variety of managerial, political and motivational skills. COOs have to be diplomats in dealing with angry customers or with CEOs wholly committed to their vision. They have to manage large amounts of detail. They must be able to communicate at a board level as well as with customers and a variety of others in the organisation.

“If I had to describe the COO’s role, it would be as a gatekeeper or as someone who has to connect all operations in the company,” says Jerome Artigliere, COO of Applied Digital Solutions, a leader in biosensor technology based in Florida. “At the corporate level, the question is always: how do you run the company when there’s operations, marketing, accounting, R&D and so on? All those items need to come together at some place, so that information can be compiled and things put together. So that’s my role.”

On a day-to-day level Artigliere believes that coaching is one of the key requirements. “You have to be a coach. You have people with different agendas and different motivations. You have to understand the business as a whole as well as dealing with some pretty detailed stuff, especially in the accounting function. Putting out fires is also part of the job.”

If CEOs are the artists – with occasional artistic excesses – COOs are the studio managers who ensure that the master’s ideas are acted on.

**COO today, CEO tomorrow**

Smeal’s Hambrick suggests that there are two basic kinds of COO. One is the heir apparent, the next in line to be CEO; the other is a plain-vanilla COO who is slated to remain in the slot.

“The people who are chosen as pure COOs – as opposed to CEO heirs-apparent – usually don’t have the skills set, the orientation or the aspiration to become CEO,” Hambrick says. “In the same vein, COOs tend not to move from company to company. There isn’t a fluid market in COOs because a lot of the value-added is very firm-specific. To do it well, you have to understand the firm – you can’t just parachute in.”

The COO as heir appears an increasingly accepted situation, however. Last year, for example, Paul S

Otellini was appointed Intel’s president and COO in anticipation of his taking over when CEO Craig Barrett retires by 2005. Otellini had already run Intel’s microprocessor products division, which, according to some Wall Street analysts, generates 80 per cent of the company’s sales. Barrett himself was president and COO before succeeding Andy Grove in 1998.

Though the jobs of CEO and COO are quite different, being a COO is a sound base to build on. It provides a stepping stone from a purely functional job to the more generalist role of CEO. The COO needs to know everything and everyone – what is really going on.

As Hambrick points out, there is an irony in using the COO role as preparation for being CEO. The CEO-in-waiting spends more time on external matters than would normally be the case with a COO. External matters form the bulk of the CEO’s job but are often the area in which most would-be CEOs have the least experience. The person employed to keep an eye on the innermost workings of the organisation is likely to have his attention focused outside the organisation for significant periods.

Having a COO can be seen as a constant CEO backup, a vice-presidential role. Corporate boards are under pressure to have a carefully managed succession so there’s a need to have an heir apparent.
A COO may not have supreme authority but he or she typically attends every board meeting and sits in on analysts’ briefings. With access to all the company’s issues and problems, the COO develops a wide range of knowledge about the company. If an unforeseen situation arises the COO is a clear choice to serve as interim CEO until the board decides whether to look outside or anoint him or her.

**Sometimes it takes two**

In other cases, the COO role is seen as an integral part of a leadership duo, the old one-two. When Herb Kelleher, Southwest Airlines’ colourful and long-standing leader, stood down in June 2001 he was succeeded by a leadership double act. Colleen Barrett, a 30-year Southwest stalwart and formerly corporate secretary and executive vice-president for customers, became president and COO; vice-chairman James Parker, a former vice-president and general counsel, took on the CEO mantle. Kelleher remained as chairman.

According to Korn/Ferry’s Wardell, CEOs drive the majority of COO appointments. “In most cases, it is a very personal appointment by the CEO,” he says. “They generally pick someone who is strong in areas where they are either not strong or not interested. The CEO chooses a number two to pick up the slack in certain functions or in lesser markets. For example, a CEO may decide that he or she will win or lose in North America and needs to place full attention on that market. But if the company has operations overseas, he or she may bring in a COO who can go to those markets and make decisions.”

In the 1970s and 1980s, say Dobbin and his Princeton co-researchers, CEOs of fast-growing companies often hired a COO to help them manage the company’s operations. This was particularly true when the company was growing rapidly, and the CEO needed help to manage the day-to-day operations.

Vanguard was spun off from Motorola in 2001. Two years later, it has 500 employees and annual sales in excess of $100m. “There are basically three of us running the company: the CEO, myself and the senior vice-president for sales and marketing,” says Pinto. “We really have responsibility for all of the company’s operations. We were previously running a division in Motorola but we didn’t have control of our destiny. Now we have proven that we can move out of a big company and put together all the pieces that you need to run a stand-alone group. Within the last 12 months we have stood on our own two feet and demonstrated some pretty good financial results. Now it’s a question of how we grow the business in the year to come.”

This week CEO Rick Lane is dealing with West Coast media while Pinto takes care of the home front. Last week Pinto was at a partner conference in Europe and talking to the press while Lane covered the day-to-day operations.

“I don’t think there are any dividing lines. We do different things at different times,” Pinto explains. “It is all a matter of focus and what the task at hand is.”

If you wanted to find the archetypal COO, Pinto would be a solid candidate. His voice crackles with commitment. He has seen the corporate world from a variety of angles: He has been in management and has manufacturing and engineering experience. Now he sees himself as a kind of corporate orchestra leader, keeping everyone together and communicating exactly what’s going on.

“If people have the right information, they will deal with it accordingly,” he says. “You see lots of companies stumbling and failing because of a lack of communication throughout the organisation, where engineering doesn’t understand how it impacts the supply chain and the supply chain doesn’t understand how it impacts customer service. At the end of the day the customer doesn’t get what he or she needs.”
companies appointed COOs “because they had the luxury of doing so”. Over time, in an era when many companies pursued a strategy of diversification, the role became a necessity to manage a sprawling portfolio of businesses. By the mid-1980s, however, as firms shifted their strategic focus from diversification strategies to core competencies, the spread of COOs slowed, and CEOs became more inclined to hire and work closely with chief financial officers. This supports the notion that the functional orientation of the second-in-command is heavily influenced by the shifting ground that CEOs are expected to occupy or by gaps in an incoming CEO’s knowledge.

Some companies explicitly recognise that a good COO can provide a counterbalance for the CEO. Cary Blair of Ohio-based Westfield Group, a financial-services company, has held the top job for 11 years and has been planning his succession for the past four. Blair believes that intelligent succession planning should factor the number-two role into the equation. Westfield has a record of mixing and matching the skills at the top of the company: operational specialists are balanced by financiers and vice versa.

How much difference does the COO make? The bottom line must be whether having a COO actually helps a company’s performance. Here, there are mixed messages. Logically and anecdotally, it appears commonsensical that having another experienced senior executive taking care of specific aspects of a company’s business should be a help.

Champions of the role point to increasing numbers of COOs becoming CEOs and cases of COOs improving performance. Probably the best-known example is that of Bob Herbold, a Procter & Gamble marketer Microsoft brought in as COO in 1994. The software giant was struggling to reconcile its huge size and related pressures to deliver with its collegiate corporate culture. In the next seven years revenues quadrupled, profitability multiplied by seven and expenses, as a percentage of revenues, fell from 51 per cent to 40 per cent. Insiders credited Herbold with keeping the ship on an even keel.

Yet the small number of academics who have examined the COO phenomenon tend to be sceptical of the impact that COOs have on corporate performance. Smeal’s Hambrick was intrigued to learn that in companies that had COOs, the CEO often had some difficulty describing their exact role. This prompted him to undertake a specific study to look into the effect of the COO. After adjusting for industry and other factors, his research showed that firms with COOs actually have inferior performance than those without.

Hambrick offers two possible explanations. First, having a CEO/COO duo is an inherently flawed design that attempts to separate formulation from implementation. Second, a COO is often a proxy for a weak CEO.

“While other CEOs take on the full spectrum of CEO responsibilities,” he says, “the CEO with a COO tends not to be comfortable with the full spectrum and is particularly not interested or comfortable with running the company itself. These are CEOs who don’t do plant visits.”

Princeton’s Dobbin agrees that delegating operations is likely to be viewed negatively. “The stock market doesn’t like hands-off CEOs these days,” he says, “so I doubt we’ll see more CEOs turning over operations to others.” While that may be true in some cases, the counter-argument is that it takes a strong CEO to admit that he needs to delegate part of the job.

Whether taking on the COO role is necessarily a good career move is also a contentious issue. “It takes a certain personality, someone who is willing to play a strong supporting role as a COO,” agrees Korn/Ferry’s Wardell. “Often the COO’s fortunes will rise or fall with those of the CEO. If the CEO bombs, the COO can’t really say he or she didn’t know what was going on.”

Potential COOs should take note. Life in the shadows may leave you permanently in the dark.