Re-Inventing Yourself as COO

BY NATHAN BENNETT & STEPHEN A. MILES

We focus on factors that have fundamentally changed demands on COOs: global recession, the evolving paradigm surrounding governance, threats to operations from natural disasters and terrorism, and the rise of big data. Each requires COOs to develop new competencies, to think about risk, and to become increasingly agile as a leader.

Over the last ten years, leadership teams have found themselves facing many unusual and some unprecedented challenges. These challenges are, because of their nature and because of the way organisations were exposed, particularly influential in reshaping the work of the COO. In this article, we focus on four major factors that have fundamentally changed demands on the COO: the global recession, the evolving paradigm surrounding governance, the threats to operations posed by natural disasters and terrorism, and the rise of big data. Each factor is significant, undeniable, and unavoidable for companies, regardless of geography, industry, or market position. And more importantly, each factor requires COOs to develop and demonstrate new competencies, to think differently about risk, and to become increasingly quick and agile in order to satisfy the needs of the position's many stakeholders and to effectively lead.

The Global Recession

The decade-long global recession has been the most pressing issue facing business leaders. Because globalisation has increased interdependencies among economies, it was difficult to understand the steps any government should take to turn things around. In the early 2000s, companies invested in countries like Brazil, Russia, India, and China because they presented seemingly attractive opportunities for operations, as emerging markets for products and services. By the middle of the decade, these investments became subject to second-guessing. The nature of the global recession made forecasting the return on overseas investments even more complex than it previously had been.

Though surviving the recession by finding ways to lower costs was the COO's primary concern over this period, right alongside was the challenge of understanding what the "new normal" might be for their company and its industry – and what that new normal might require from its chief operating executive. Cost cutting could not rule the day forever; at some point energy would need to be refocused on finding growth. Understanding evolving economic conditions and their consequences for business strategy, determining where opportunities might exist, and organising to pursue them are just a few examples of issues that have required resetting during this evolution of what normal now means. Restarting or reinvigorating innovation agendas required considerable effort because the behavior these agendas require is so markedly different from those required of during a period of heavy and sustained cost cutting. The decade has been volatile. Volatility is vexing for leaders, and over the past decade, it has become the new norm. In all, the recession forced COOs to truly become global citizens in order to properly understand ways to first manage costs and then exploit opportunities for growth. This

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requires COOs to become much more externally focused than they ever have before.

Governance

A noticeable trend over the past ten years has been a more public interest in corporate governance. Investors have been rightly concerned about leadership teams' ability to deftly manage its company through recession. Where possible, activist investors have sought to increase control over the company through the acquisition of board seats. Where that was not possible, public forums have been used to raise questions about the suitability of the leadership team and to thereby influence its decisions.

As a result of this pressure, boards have stepped up their game. Board chairs have become much more involved in the companies they oversee. Now in the United States, as has been the practice in Europe, the chair position is more and more frequently separated from the CEO position. Board chair is not an honorific position; someone with deep understanding of the company and its industry now fills the role. An independent chair means CEOs are freed of duties and can use the newly found time to get "closer" to the company operations. Two trends are a natural result of this "found time" on the CEO's calendar. First, CEOs are reporting a broader span of control;

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Tim Cook (left), Apple COO and Steve Jobs (right), co-founder of Apple.

Photo courtesy: iGeeks Blog

they sense enough bandwidth to take on more direct reports. Second, during this same ten-year period, we have noted a slow but persistent decline in the number of large companies with a COO. For a more internally focused CEO, a COO may appear to be redundant. It is possible that changes in the ways chairs and CEOs are enacting their jobs have the net result of creating role overlap between the CEO and COO. When this is suspected, the first question to ask is if that overlap creates value or confusion for the company. Some companies have decided that the COO role is not necessary when the CEO has a more internal focus.

Though there are reasons to be encouraged by a renewed engagement of the CEO, the decision to operate without a COO brings with it some unintended and potentially risky consequences. Chief among these risks is the ability of a company to ensure leadership continuity. This is because the COO role has been so effectively used to groom successors – you needn't look further than Tim Cook at Apple. For years, Jobs deliberately developed Cook to take over, giving him increasingly greater responsibility, engagement with the Apple Board, and exposure to the public. Compare the intentionality of that transition to the situation that recently was revealed at DuPont after CEO Ellen Kullman was forced to resign. Though she had been in the role for many years and had ample opportunity to deploy a role like COO in order to develop a successor, no such person was in place. Instead, the board had to select an interim CEO from among its board members. This situation is precisely what *Fortune Magazine* called it – "a succession disaster". So while the decision to separate the Chair and CEO roles has many advantages, it is clear that the downstream consequences as they pertain to succession may not have been sufficiently thought through.

Threats to Operations

Personal resilience and crisis leadership have become mission-critical competencies for COOs. In recent years, consider the large-scale automotive recalls in the US, the catastrophic drop in oil prices globally, the BP/Horizon oil disaster in the Gulf of Mexico, Super Storm Sandy in the New York City area, typhoons and earthquakes in Asia – the list truly goes on and on. And, the last decade has provided COOs a steady stream of opportunities to hone this ability. Natural disasters, such as earthquakes and hurricanes, have always been a part of the set of risks executives are expected to manage. As businesses are more global and supply chains stretched, however, operations are increasingly exposed to disruption from such events. This risk has increased, and as impacts of climate change are noted, it will increase further. With regard to both physical and cyber terrorism – it's an enterprise that has globalised, too. The last decade has seen terrorist activity in cities around the world. Technology has also provided evil-doers with new opportunities. Assisted by the same technology that has supported the expansion of company reach, terrorists have developed their own "long arms". It has become much more difficult for leaders to fully understand and manage the risk associated with terrorist attacks.

Cyber terrorism offers a great example of how the risks COOs need to understand and minimise have changed. Not many years ago, banks had a good handle on what a robbery scenario would look like and could easily design robust responses to a fairly small set of scenarios. That is no longer true; the bank robber doesn't need to appear, a robbery could be staged from anywhere with an Internet connection. The scenarios to be anticipated and solved are numerous, rapidly evolving, and, in ways, abstract.

When faced with events like these – external shocks that can stun operations – leaders can choose from one of two responses: to amplify or to absorb the uncertainty created by the crises. Shock absorbers essentially find ways to take the hits themselves, protecting their teams' ability to effectively manage through the crises. In contrast, amplifying leaders dramatise the challenges in order to wind everyone up. Amplifying leaders see this behaviour as strategic. Their intent is to motivate the troops by rallying them around the defeat of a formidable enemy. Alternatively, exaggeration can be intended to deflect responsibility or to plant the seeds of an excuse for failure. In reality, this behaviour simply handicaps those set out to fight it. Every COOs ability to function as a shock absorber, effectively buffering any volatility, uncertainty, complexity or ambiguity in the external environment so that operations experience as little disruption as possible, has truly been tested over the past ten years.

Big Data & The Internet of Things

We are on the doorstep of the phenomenon of the "Internet of Things". To a great degree, every company is now a technology company. Leaders who do not adapt their companies to

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the ramifications of this reconfiguration will be at a great disadvantage. COOs will increasingly be expected to show greater depths of understanding in technology. In fact, it would not be surprising to see more operations executives come to the role from a career inside the technology function. Without sufficient technological savvy it will be difficult to hire the best people, to make the best decisions around how technology can facilitate operations, and so on.

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Big data has already begun to change the way leaders make decisions. It has been a difficult change for some companies where "sound, experienced judgment" is being replaced by the whir of a computer as it chews through a massive volume of data. In organisational cultures where operations people have historically had a lot to say and were rewarded for sound decisions based on experience or "gut", the transition to data-driven analytics and decision-making has been difficult. Big data changes power relationships in an organisation; no longer does expertise or reputation for judgment rule the day. Instead, access to massive amounts of data and the ability to intelligently consider it become the prized skills. Obviously, the insights gleaned through smartly leveraging big data are going to be increasingly critical to operations.

Summary

These four characteristics – the recession, an evolution in thinking about organisational governance, external threats to operations, and the rise of big data – have together begun to define a new normal for COOs. Easy opportunities for growth are scarce; pursuit of the complex opportunities that exist is replete with new risks. As CEOs become more engaged with the day-to-day operations of their respective companies, COOs are required to adjust their work habits. New technologies truly do give with one hand while taking with the other – each capability comes with a concomitant challenge.

This increasingly complex and changing environment is requiring COOs to develop deeper skills in global awareness, finance, and technology than they previously were expected to display. And, as has always been true, COOs must deeply understand their respective companies' strategies and how operations must run to deliver on that strategy. It is a fascinating time to serve as COO because the way the role is evolving is creating a need for this richer set of skills in order to solve more complex operational puzzles. COOs, and those who aspire to the role, have a new set of competencies to develop. Those who succeed as COO from this day forward will be those who can broaden their business knowledge well beyond operations. This evolution in preparedness is essential because the world has changed in inextricable ways to make the inwardly focused operations executive a relic of the past century.

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