

# The DNA of the COO

Time to claim the spotlight

Our thanks to the more than 300 COOs and 40 further C-suite members and executive experts who participated in the study. In particular, we would like to thank all those who shared their insights and personal experience of the role in a series of in-depth interviews (listed alphabetically by company name):

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In sharp contrast to the role of the chief operating officer (COO), commentary and advice abound about the roles of the other C-suite members, whether the CEO, CFO or CIO. Why is so little known about the role of the COO, despite its long history? In researching *The DNA of the COO*, we uncovered a compelling story of a wide-ranging role that still needs to fight to justify its existence, despite having a clear rationale. This report provides much-needed insight into what it is to be a COO today. It is based on detailed research into the role, including many in-depth interviews with COOs and their C-suite peers. It incorporates analysis of two surveys: a shorter February 2012 pilot study of 200 COOs; and a comprehensive April 2012 survey of another 306 COOs and senior operations professionals across Africa, America, Asia, Australia, Europe and the Middle East. In the second survey, a further 43 respondents from across the C-suite were also polled to give their perspective on how the COO is perceived by the rest of the management team.

This report explores the expectations and aspirations of those in the job, along with the skills, capabilities and relationships that they need to master in order to succeed. It is one of a series of Ernst & Young thought leadership programs that seek to understand what it takes for C-level executives to take control of their evolving roles. Already available are *The DNA of the CFO* and *The DNA of the CIO*, which deal with the traits and characteristics of today's senior finance and information technology professionals.



Dear fellow COOs,



Welcome to *The DNA of the COO*, the first in-depth Ernst & Young research that focuses on the role of the chief operating officer (COO). It aims to provide insights into the person behind the role and examines the skills, experiences, relationships and mindset that COOs need in order to succeed.

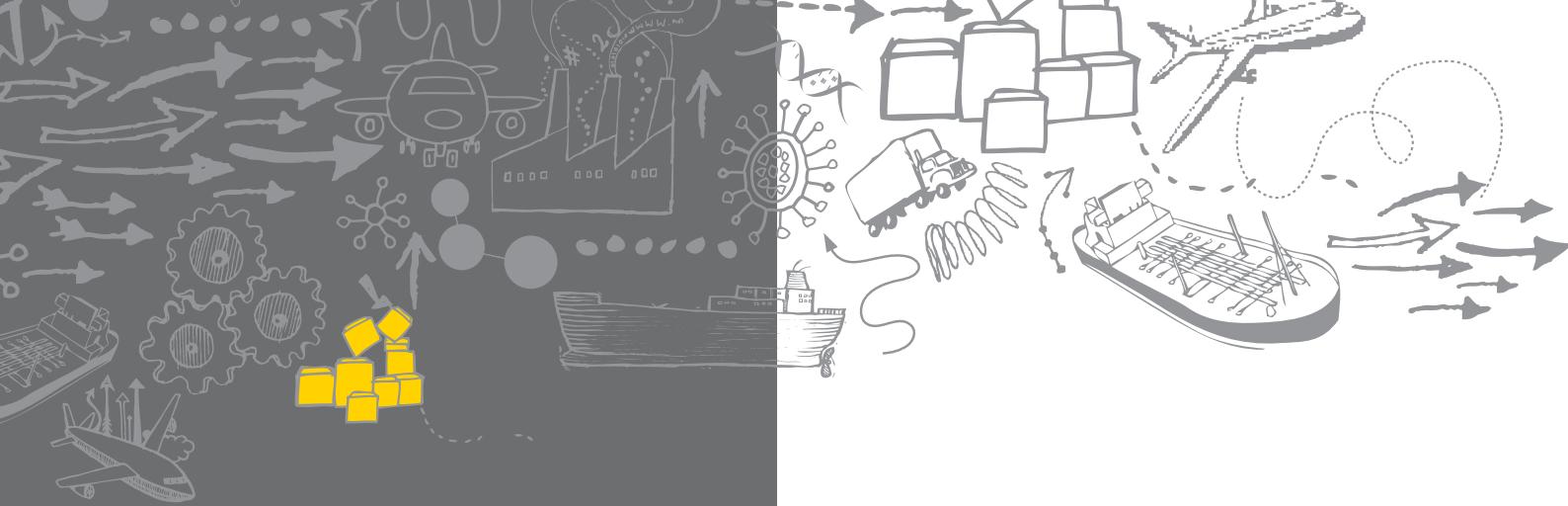
I believe this is an important and timely perspective, for several reasons. First, COOs suffer from a lack of information on their role. While their boardroom colleagues have conferences, dedicated forums, and wide-ranging literature to help them in fulfilling their role, there is little around that focuses on the COO. Second, the role of the COO is needed now more than it has ever been, given the deep and wide-ranging pressures of recent years. In grappling with market uncertainty and volatility, companies have required a sustained pursuit of greater efficiency, embarking on major business transformation as a result. Few people are better placed than the COO to manage such challenges.

Indeed, what is clear from this research is that there is a major opportunity in all this for those COOs who are willing to pursue it. Too many, for too long, have stood out of the spotlight, focusing on the operational basics, while ignoring the chance to grab a more strategic role within the organization. Clearly, the exact nature of this position is hugely diverse, given the wide variations in operational roles from one industry to another, but the gist of it lies in supporting the chief executive officer and management team in determining the optimal strategy for the future – and then helping to implement it.

Getting this right requires not just a grasp of the dynamics of one's particular sector, but also leadership, people skills, vision, ambition and more. At its core, this research acts as a road map, helping to indicate what is needed and the direction in which things are headed. In putting this report together, I am proud that we were able to draw on the views of hundreds of COOs, from every major industry and many diverse regions, as well as many of their colleagues in the rest of the C-suite.

This will not be the end of our efforts in this area. Ernst & Young plans to build on this initiative by creating ongoing thought leadership and research of interest to the COO. I know as well as you how much this is needed, and I trust you will find this report as useful in gaining a high-level view of your role as I have.

Pascal Macioce, COO  
Europe, Middle East, India and Africa  
Ernst & Young



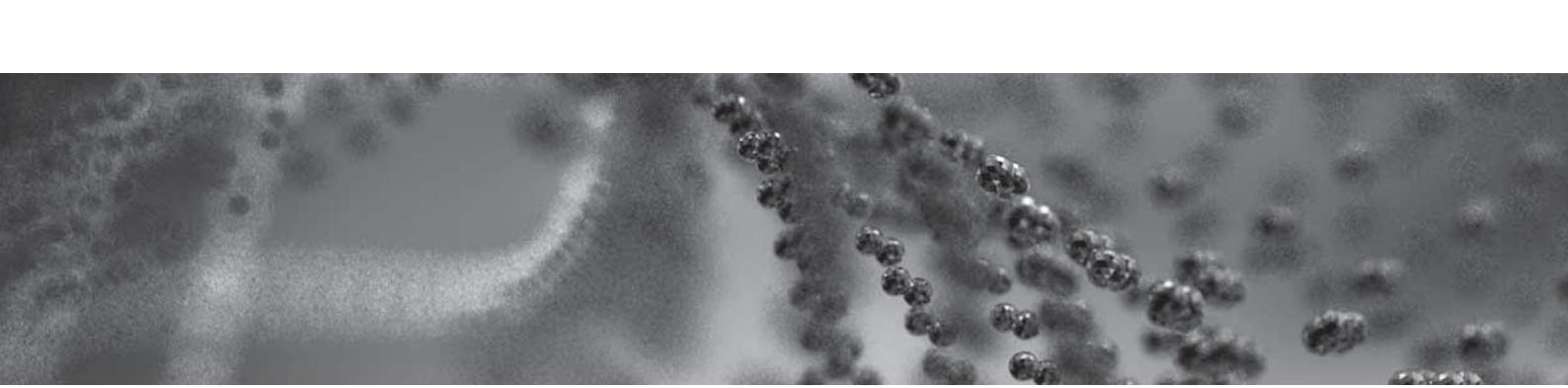
# Executive summary

The role of the chief operating officer (COO) often defies a “one size fits all” description. Essentially, it is a job whose responsibilities are defined closely in tandem with the individual needs and goals of the chief executive officer (CEO). Despite this, there are common themes and concerns that cut across everyone in this position. What we find is a breed of executive who combines deep operational knowledge with broad strategic insight, and who has what it takes to become the next CEO. Yet we also find a role that is fraught with challenges. Successful COOs have to adapt constantly to a fast-changing corporate and external environment. They must possess a mastery of change, to help translate strategic vision into action. And they must ultimately help the business to innovate and grow.

## One of the C-suite’s toughest roles

The need for a figurehead in the operations role is more pressing than ever. More than anything else, this is due to increasing complexity, the single most important shift in the role over the past five years. This manifests itself in a number of ways. Companies must be highly flexible and agile, while retaining a sharper-than-ever focus on cost-containment and efficiency. They have to fight for market share in developed markets, while also building scale and capacity in rapid-growth markets. These challenges require strong leadership to catalyze and implement the strategic agenda. In many companies, COOs are ideally placed to lead this charge.

**33%** percentage of COOs who think their role has become more complex in recent years



But doing so is far from easy: one in three COOs strongly agree<sup>1</sup> that their role is one of the most difficult in the management team. Their peers in the C-suite are even more certain: half of them think that few other roles are as tough.

### Thriving on the adrenaline of complexity and change

For COOs, the inherent challenges of the job are part and parcel of its appeal. Overall, about 6 in 10 say that the complexity and diversity of the role is fundamentally what makes it worthwhile for them. Indeed, 49% strongly agree that they thrive on the constant change and challenge of their role, not least because they are often on the frontlines of implementing business transformation. And, as might be expected, the talented candidates who are able to cope with such challenges are well regarded internally. This positive perception – along with the potential to influence corporate strategy and clear potential for career development – are the three core aspects of why COOs find their job a fulfilling one. Their peers clearly agree: 66% of COOs surveyed for this report are a member of the board or executive leadership team, well ahead of other C-suite roles, such as the CIO.

### A stepping stone to the top job

Forty percent of COOs polled aspire to be promoted to CEO within the next five years, ahead of the 30% who see their current role as a final career destination. Among respondents from rapid-growth markets, the proportion aspiring to become CEO is as high as 54%. This is in clear contrast to other C-suite executives, such as the CFO or CIO, many of whom are typically happier to remain where they are, as related Ernst & Young research shows.<sup>2</sup> Of course, only a select few COOs will make this transition to the top job. Those that do so will need to look beyond their operational heartland and adopt a more strategic mindset. They will also need to build strong relationships with a wider range of stakeholders, both internally and externally. Although the route from COO to CEO is a common one, the scale of the ascent should not be underestimated. Nor should the challenges on the way, in particular the delicate balancing act with incumbent CEOs, not all of whom will look favorably on the operations leader who is eyeing their job.

### Leadership skills vital, but confidence here lags

COO responsibilities differ, but one theme remains constant. To perform the role well, 87% of COOs say that highly developed leadership qualities and interpersonal skills are the most crucial attributes. Indeed, many admit that soft skills were an essential part of their career development, second only to hard work, which is a baseline assumption of any C-suite role. The reason is simple: COOs have to interact with almost every function in the business and, in multinational companies, a wide variety of different cultures. Accessibility and the capacity to adapt their management style to suit different audiences become critical. Furthermore, a key part of their job is to manage business change, which requires strong leadership. But, in all this, many COOs recognize the need for improvement. When asked about the areas in which they most need to improve their skills, the majority (57%) admit to the need for sharper leadership skills.

### Not yet strategic enough

The days when COOs could focus all their attention on the nuts and bolts of operations are fading. Today, mastery of operational issues is a given. Beyond this, COOs have a clear opportunity to help define the strategy that underpins a CEO's vision, and to then take the lead in implementing it. Indeed, this is an increasingly important part of how the COO role can be secured within the business. Their C-suite peers surveyed for this report strongly agree: for example, 70% consider the ability to participate in strategic discussions a vital skill for the job, along with other abilities, such as delivering business transformation effectively. This is recognized by COOs, relatively few of whom remain concerned with operational issues alone. But greater progress is needed. Just 57% of COOs strongly agree that they have participated in strategic decision-making, and only 50% have spotted the opportunity to get operations involved in business transformation. This is a risk. As just one illustration of this, only half of C-suite executives are certain that the company would perform worse if the COO role did not exist at all.

**7.8/10**

the average degree of satisfaction that COOs have about the overall perception of their role

**41%**

COOs that are strongly satisfied with their career development potential

**60%**

proportion of COOs who believe participating in board-level strategy discussions is highly important to their performance

<sup>1</sup> Whenever we refer to terms such as strong/strongly or major, we refer to those respondents that chose 9 or 10 on a scale from 1 to 10, where 1 is low and 10 is high.

<sup>2</sup> Please refer to "The DNA of the CFO – A study of what makes the chief financial officer" and "The DNA of the CIO – Opening the door to the C-suite".

## A lack of visibility harming potential

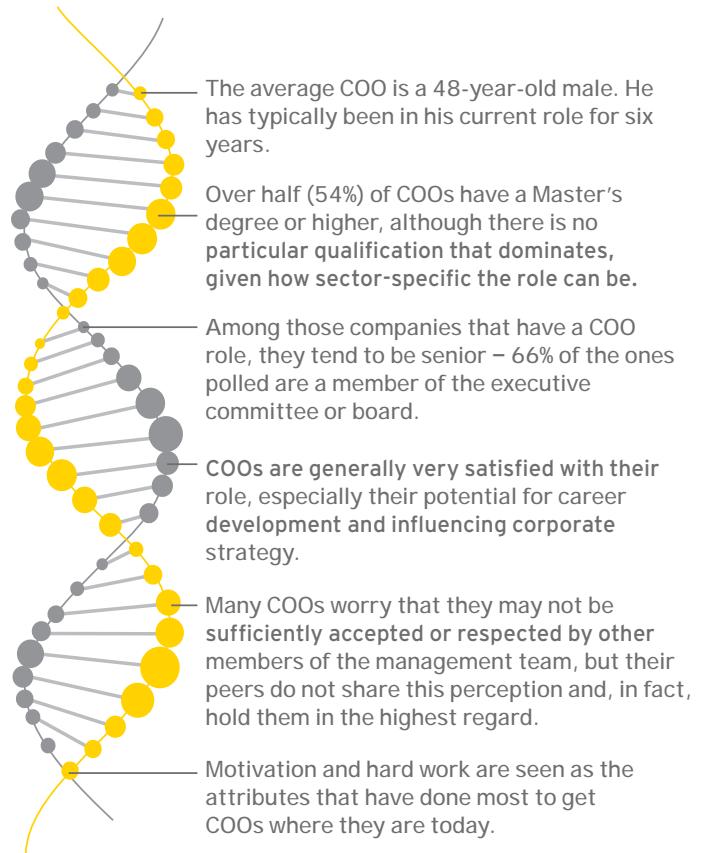
When asked about the biggest barriers to the career development of the COO, respondents point to lack of acceptance or understanding as their number one concern. This reflects the fact that the scope of the COO's role is often defined by the areas in which CEOs most need support, which can vary widely from one business to another. This highlights a common issue for COOs: a lack of visibility. When operations are running smoothly, they rarely get the credit for "keeping the wheels turning," but often only become noticed when things go wrong. A similar challenge applies in external relationships. For the most part, it is the CEO and CFO who are visible to the media, investors and other constituents, while the COO stays within the walls of the company. Especially for those COOs who aspire to the CEO position, it will be essential to make their input more visible to both internal and external stakeholders.

## Rapid-growth markets: shaping tomorrow's leaders

Whereas many COOs in developed markets are focused on eking out greater operational efficiencies to defend their companies' market positions, their peers in rapid-growth markets have a more enviable priority list. Topping it is the need to build capacity, scale up production and ensure that the right resources are in place to capture growth opportunities. This agenda demands a highly entrepreneurial and strategic mindset, along with the ability to introduce efficiency and process optimization so that growth can be sustainable. With a dual focus on top-line growth and bottom-line performance, rapid-growth market COOs require a broader palette of skills. This in turn will make them highly attractive candidates for other leadership roles in the future.

Few other C-suite roles are as closely linked to the overall leadership of the business as that of the COO. Many have the genuine ability – and aspiration – to do the top job. But to fully prepare for that transition, and to ensure their own relevance within their current job, stronger efforts will be needed to bolster specific skills, strengthen core relationships and increase their visibility. *The DNA of the COO* seeks to provide a toolkit that maps out what needs to be changed, where the stumbling blocks lie, and how best to prepare.

## The characteristics of today's typical COO



**9.4/10** the average level of agreement among COOs that leadership and people management skills are key to their performance, above all else

**31%** percentage of COOs who think that a lack of corporate understanding of their role is the greatest obstacle to their further career development

**57%** proportion of rapid-growth market COOs who see supporting growth as a key part of the value they add, compared with 44% of developed market peers

# Resetting the logic of the job

In contrast to many other C-suite roles, that of the chief operating officer (COO) has had a turbulent recent history. Despite having been around in some form or another for many decades now, *The New York Times* reported on the appointment of a COO at a US bank as early as 1935<sup>3</sup>, while the rail industry has had specialist COO roles for at least a century – uncertainty about its future often still lingers.

Between 2000 and 2012, the proportion of Fortune 500 and S&P 500 companies with a dedicated COO role slipped from 49% to 35%.<sup>4</sup> But in Europe, where the title is a relative newcomer in the C-suite, it appears to be on the rise. About 37 of the 97 largest companies within the Eurozone and UK now have a COO, most of whom had only had one predecessor in that position, which highlights how recent an arrival it is.<sup>5</sup> Indeed, about one-quarter of companies polled by Ernst & Young in a separate pilot survey in early 2012 acknowledged that they had only created a COO position at some point in the past eight years.

There are several reasons why the COO role has struggled to fully cement itself within today's C-suite. Some companies, for example, may opt instead to split operations responsibilities between several executives; in others, the CEO may decide to handle operational issues directly. But in many companies, across a range of industries and regions, changing market dynamics now provide a chance to clarify the inherent logic of the COO's role, at least for those willing to take on the challenge.

## New pressures redefine an old role

In many respects, the ongoing financial crisis is a key driver of these dynamics: a daunting regulatory environment; a tougher emphasis on efficiency and cost management, including a drive to transform many core aspects of the business; and the need to expand into new markets in the pursuit of growth. All these factors underscore the need for an operational leader, especially within an increasingly complex and global business environment. "The larger and more complex the organization, the more they need a COO," explains Magnus Graf Lambsdorff, Partner at Egon Zehnder International. This need is further exacerbated by the increasing speed of change, from ever shorter product development life cycles to a continuously evolving technology.



<sup>3</sup> "Banking bill wins favor as revised," *The New York Times*, 25 August 1935.

<sup>4</sup> "Crist Kolder volatility report," *cristkolder website*, [www.cristkolder.com/VolatilityReport.pdf](http://www.cristkolder.com/VolatilityReport.pdf), accessed September 27th, 2012.

<sup>5</sup> "The rise of the COO," *Harvard Business Review*, 9 November 2011, Gunjan Bhardwaj, et al.

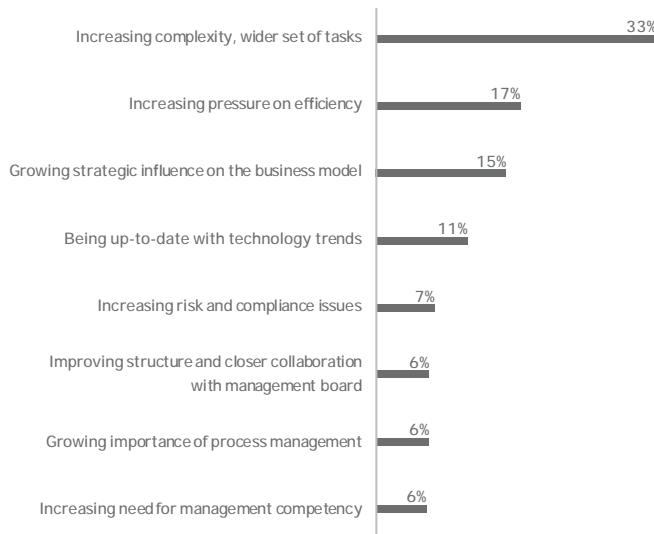


**"Operations are increasingly of strategic importance, addressing both the revenue and the cost challenges organizations face."**

**Adrian Edwards**, Global Supply Chain and Operations Leader, Ernst & Young

The effects of this are clearly felt by today's COOs. One in three of those polled for the comprehensive study say that increased complexity and a wider set of tasks has been the most striking change in their job over the past five years. Keeping pace with this broadening remit requires a laser-like focus on operational effectiveness, along with strong leadership qualities. "You have less time nowadays to get it right first time," remarks Mr. Vidjongtius, CFO of Kalbe Farma. "There is less tolerance for learning your way through a situation."

**Chart 1: changed tasks for a COO in the last five years**



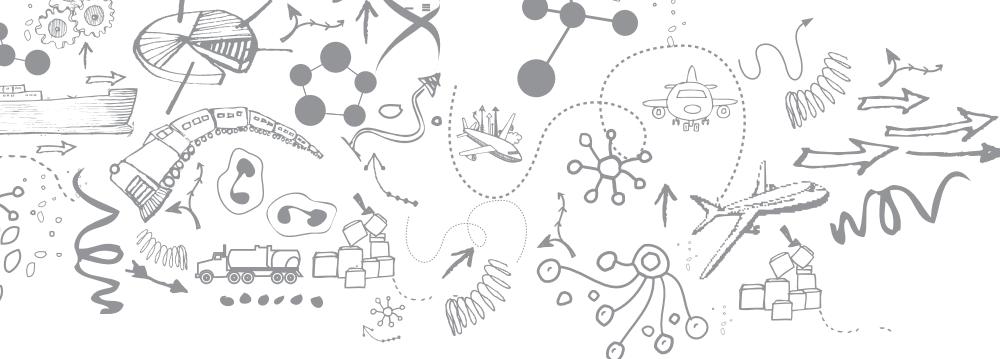
(Open question with multiple answers)

The ability to extract organizational clarity within a complex and fast-changing business can be a clear benefit for the company. Those that can go the extra mile from an operational perspective will have a strong advantage. "Shrinking margins, globalization and increased competition have all increased pressure on companies to execute better," explains Hennie Human, Performance Improvement Advisory Leader for Africa at Ernst & Young. "The companies that can bring the best products to market quicker and more efficiently than their competitors are the ones that will be better able to capture market share and grow sustainably," he says. This focus is true in rapid-growth markets too, where effective COOs recognize that growth needs to take place in the context of greater efficiency.

### Opportunity ahead

For ambitious COOs, all this provides a significant opportunity. More so than any other executive, they are well-placed to take on such challenges and cement their position within the organization. "Operations are increasingly of strategic importance, addressing both the revenue and cost challenges organizations face, whereas historically there was a strong bias towards tactics and cost," says Adrian Edwards, Global Supply Chain and Operations Leader at Ernst & Young. "If you think of the critical role that they now play in new channels to market and in enabling revenue growth, then it becomes clear why the COO role has now become so fundamental to the success of a business."

Furthermore, adding a COO role can help to free up the CEO to focus on setting the corporate vision and goals, while then relying on the operational leader to help shape the underlying strategy and implement it. This gives the CEO the space to be the corporate visionary and evangelist, leaving the COO to manage the people and processes needed for delivery. But achieving such an outcome clearly requires a COO who is able to bring a sufficiently strategic approach to the job.



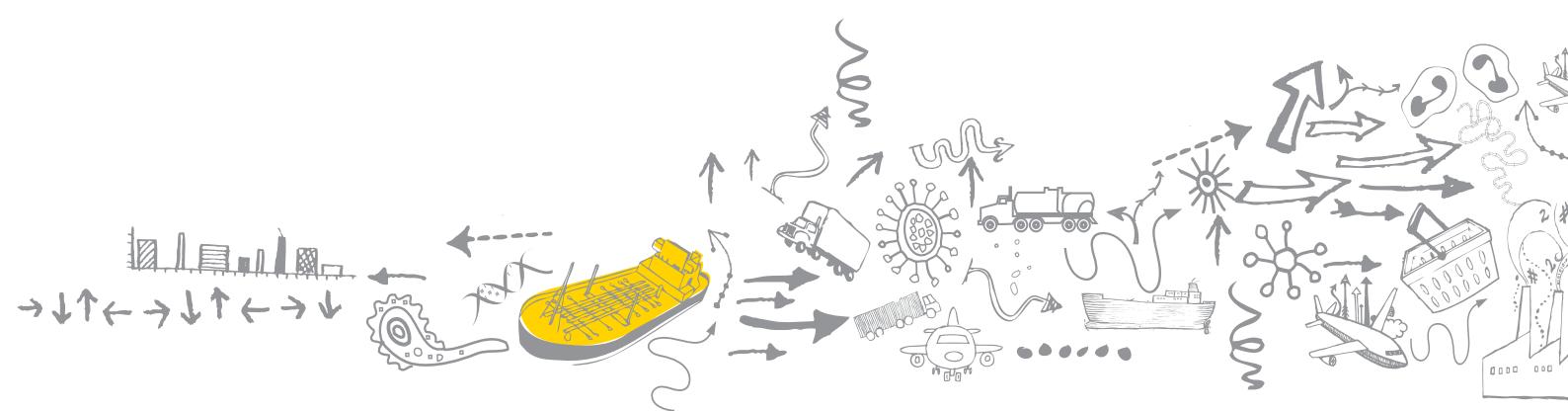
For many companies, this also acts as an effective form of succession planning. By giving a single executive the authority to interact closely with every other part of the business and build the relationships necessary for success, they lay the groundwork for an effective successor. This approach was most prominently highlighted in recent times with the appointment of ex-COO Timothy Cook as the CEO of Apple in the summer of 2011, picking up the reins of his predecessor, Steve Jobs.<sup>6</sup> This is hardly an exception: between 2000 and 2012, just under half of all internal CEO appointees in the Fortune 500 were previously in the COO role, according to Crist Kolder Associates.<sup>7</sup>

### The corporate chameleon

But while the rationale for the job is clearer than ever, the position itself is more daunting. First of all, there is no one size fits all model that will guarantee success. Unlike other management roles, such as the CFO, there are no professional standards, nor are expectations of the job common across all organizations. Rather than possessing a single set of skills that can be easily identified in any business, COOs have to adapt, chameleon-like, to the environment in which they find themselves.

In particular, given the scope that the role holds in helping to define and implement the CEO's vision, the COO's role is necessarily defined closely in parallel with that of the chief executive. Ernst & Young's Edwards uses the analogy of a river to illustrate this point: "If you imagine that the other members of the management team, such as the CEO and CFO, are rocks in a river, then the COO role is like the water that goes around and fills in the space."

This makes the COO role highly dependent on the relative strengths of the CEO. For example, in companies where the CEO needs to spend time courting investors, customers, analysts and the media, the requirement for a more internally facing second-in-command is much greater. In others, there may be a greater focus on being the CEO's "fixer," despatched to fulfill specific business initiatives, such as a business transformation project or a large-scale overseas expansion. "If you've got a highly strategic CEO, then you tend to find that the COO is less so, whereas if you've got a CEO who is much more operational then you find that the COO gets more involved in strategic issues," explains Edwards.



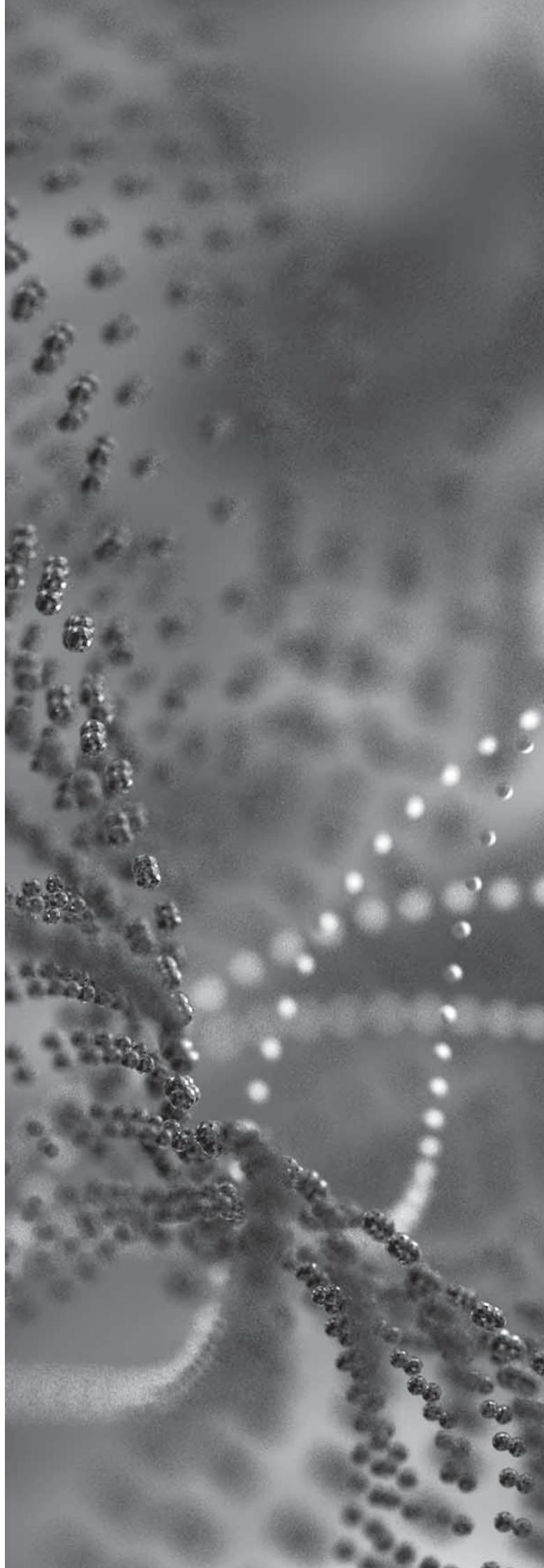
<sup>6</sup> "Steve Jobs resigns as CEO of Apple," *Apple Press Release*, 24 August 2011.

<sup>7</sup> "Crist Kolder volatility report," *cristkolder website*, [www.cristkolder.com/VolatilityReport.pdf](http://www.cristkolder.com/VolatilityReport.pdf), accessed September 27th, 2012.

## A guide to the top

Inevitably, this calls for someone not only hugely competent, but also inherently flexible. It requires an executive who is able to build bridges with all other parts of the business, while managing successfully both upwards and downwards. It demands strong leadership, while accepting that the COO cannot stand under the same spotlight that shines on the CEO. To make all of this work, it requires a great deal of clarity – and sensitivity – in mapping out how best to fit in. For their part, CEOs need to be able to give COOs complete autonomy in certain areas; in return, they rightly expect full support for their overall vision.

To help understand how to prepare for such a role, and for the future career potential this might offer, *The DNA of the COO* acts as a guide. It explores how, in order to prove their worth, COOs should take the lead in business transformation, while also working to deepen their strategic position within the business. It highlights what relationships will be needed for success, with specific insights about the fundamental dynamic between the COO and CEO. It also provides a detailed overview of the full extent of the potential contribution that COOs can make, and the core skills and experiences they need in order to deliver that contribution. Finally, it gives guidance for both current and aspiring COOs on how best to climb the corporate ladder.



# Proving their worth

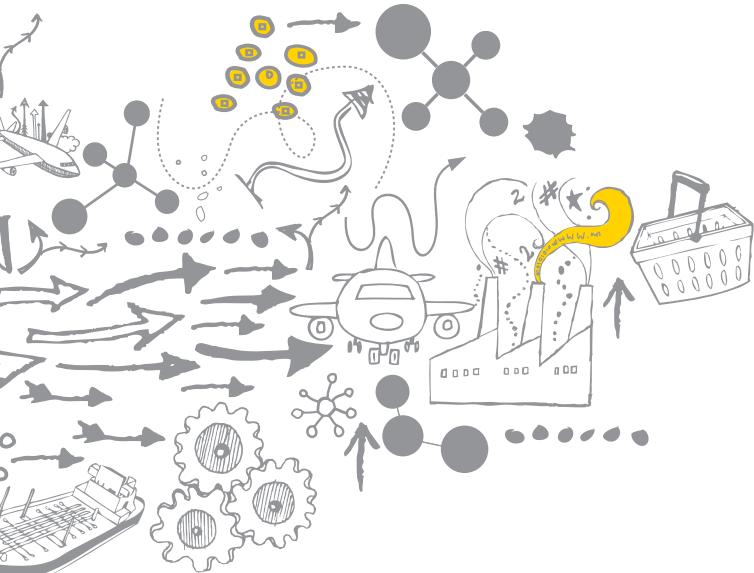
COOs will greatly increase their chances of being successful in their role if they can demonstrate clearly to other members of the C-suite the value that they bring. "In order not to become redundant, we as COOs have to prove that it really does make sense to bring these processing and operations functions together," says Daniel Bandle, COO of AXA Winterthur, a large Swiss insurance company. "No one doubts that these functions are absolutely necessary in any organization, but the question is whether it makes sense to bundle them together. It is up to us as COOs to prove that we're bringing added value. We need to do a better job of marketing ourselves."

In general, the COO's C-suite peers have great respect for the demands of the role, with almost half strongly agreeing that it is one of the most difficult in the management team. This is even more than the proportion of COOs who agree with the same statement (32%). Yet, when it comes to the question of whether a company would perform worse if it had no COO, there are some signs of a divergence of opinion. Although 51% of C-suite respondents strongly agree, that still leaves 49% who are less sure. In short, COOs have more to do in order to prove their value to the rest of the business.

Encouragingly, there is much internal support: peers in the C-suite have a high opinion of the value that COOs bring to most of their core responsibilities. But there are some areas in which COOs need to catch up. For example, while 57% agree strongly that they add value by executing transformational projects, fewer of their C-suite peers (44%) hold the same view. As the individual in the company who is best placed to lead and implement change, COOs should ensure that they make the most of such opportunities.

In doing so, they should address themselves to areas in which the rest of the C-suite sees most scope for them to contribute: for example, they recognize the possibility for COOs to provide a strategic input by supporting growth opportunities, whether the expansion into a new product or geographic market, or the reorganization of the business to bolster growth in existing markets.

Chart 2: areas where COO's work adds value for a company





"We as COOs need to do a better job of marketing ourselves."

Daniel Bandle, COO, AXA Winterthur

## Rising above the complexity

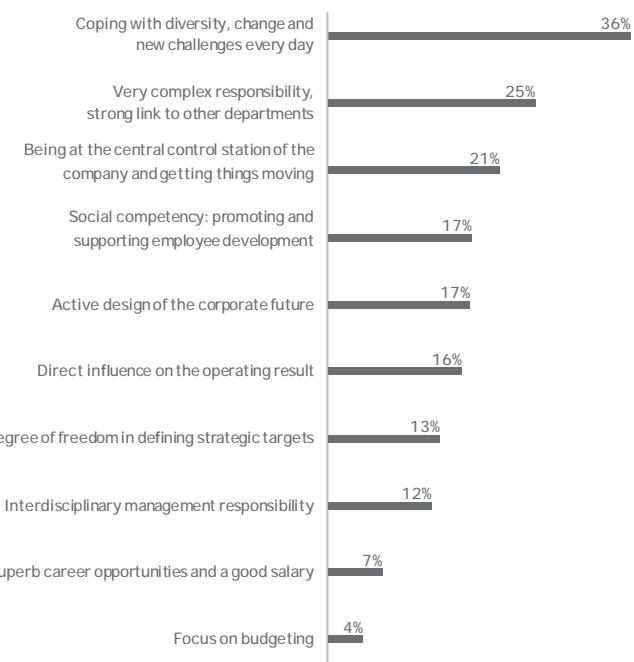
The key difficulty for COOs is that finding the space to showcase their skills can be hugely challenging. It requires them to find a ladder out of the operational trenches, to gain a wider perspective of the business. This is hard, not least because they feel that, given the demands of their role, they need to be in several places at once. "You're expected to be a fixer and are responsible for all the operational problems that happen," explains Vivienne Ouyang, COO of CHIC Group, a Chinese conglomerate. "In a global business, this means that the COO can feel like he or she is on call 24/7. Trends like social media exacerbate the challenges because your company is now open to attack and comment within seconds. This means that, these days, the COO has to be pretty resilient and energetic just to meet the demands for presence and contactability that the role requires."

But, in turn, such challenges are what COOs thrive on. When asked to explain what makes their role worthwhile, respondents point to the fact that it brings fresh challenges every day. They also enjoy engaging with a wide variety of different functions and departments across the business, even if these varying demands would be too much for a lesser person.

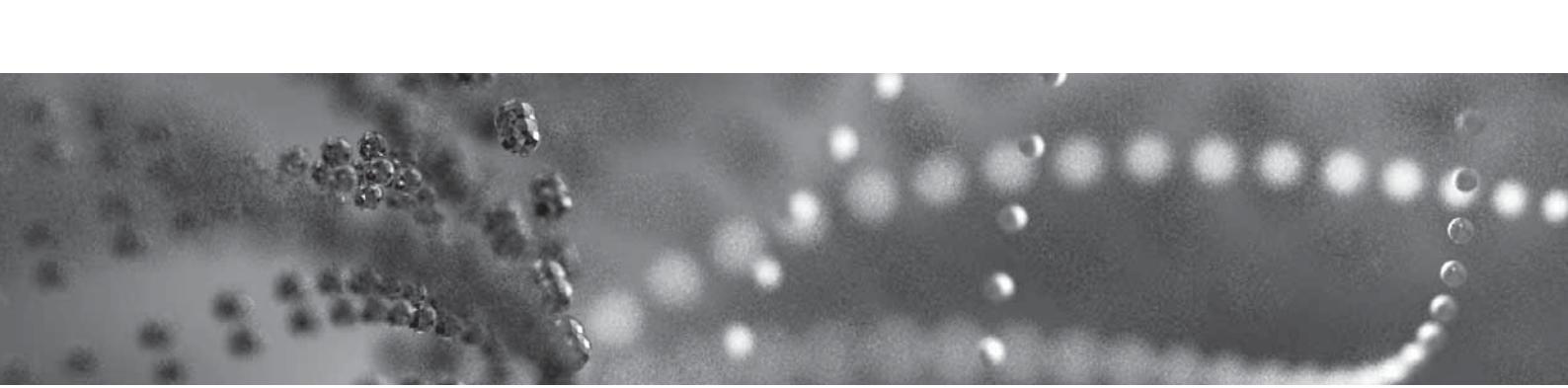
"I don't see the diversity of the role as a challenge at all," says Frits Eulderink, COO of Royal Vopak, the world's largest independent tank storage provider. "In fact, it's one of the things that I enjoy most about it. I have the privilege of consulting and facilitating discussions across an incredibly wide range of functions and areas with the aim of solving dilemmas."

The growing demands on businesses across all sectors and regions create a fertile environment for COOs to demonstrate that they add value across a broad range of areas. In this, they need to challenge an often-held perception that the role is primarily concerned with keeping the wheels turning and little else. To overcome this, COOs must demonstrate that they now bring a strategic contribution to the business, and that their role "moves the needle" on business performance, especially when compared with those firms without a COO.

Chart 3: aspects that make the COO position worthwhile



(Open question with multiple answers)



## Making the most of a unique perspective

There is ample opportunity to demonstrate such worth. Indeed, COOs should take the chance to capitalize on their unique vantage point over every aspect of the business. By getting involved in almost every function, they can spot interdependencies and serve as the integrator between different activities across the business. They can help to break down functional and geographical silos, and identify ways of combining assets to drive efficiencies and transfer best practice. "By weeding out inefficiencies and deriving economies of scale across operations, we can add much more value than if our role was scattered across the organization," says AXA Winterthur COO Daniel Bandle.

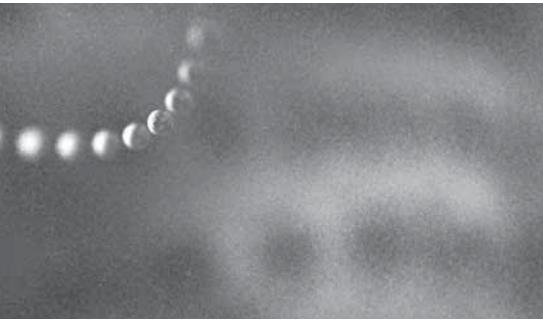
Having this visibility across the entire enterprise is particularly important for companies that span multiple geographical locations. Many companies recognize the need to get close to local markets in order to ensure relevance to customers, but this means that the opportunities for economies of scale can be lost. The COO is able to spot the potential for aggregation at a regional or even global level, and can take examples of operational excellence in one region and transfer them to another. Equally, the COO can identify where a local, customized approach is more appropriate.

COOs are also well-placed to determine which activities have to be conducted in-house, as against those that can be handed over to an external provider. "Things that are core today can quickly become commodities," notes Dr. Josef Richter, CIO of HOERBIGER Group, a global engineering and technology company. "The COO needs to identify this transition as early as possible, make the necessary changes and ensure that the organization is constantly building up the right capabilities or releasing people for new roles."

Alongside this, COOs can also strike the right balance between efficiency and flexibility. Although the need to minimize costs and increase efficiency remains important for almost every company, a purely operational "cost minimization" approach risks stripping out functions and capabilities that customers value or that are necessary to achieve strategic goals. As the "messenger" of the C-suite and the owner of the operational agenda, the COO is perhaps the only individual who can ensure that this balance is struck.

Nevertheless, in achieving all of this, it remains difficult for COOs to gain internal visibility. To a large extent, seamless operations are invisible to the rest of the company and only become apparent when things go wrong. Neither do COOs particularly want to sit back and enjoy the ride when things are going well. "I don't want to spend my time getting involved in processes that are running perfectly," explains Dr. Dietmar Schell, Operations & Quality Assurance Director at DiaSorin, a medical diagnostics firm. "It's much more important for me to know when things are going wrong at the earliest stage, because that gives us an opportunity to make improvements and change our processes," he says. Indeed, change is at the heart of what sets apart the role of the COO, as the next section explores.





**"I don't see the diversity of the role as a challenge at all. In fact, it's one of the things I enjoy most about it."**

**Frits Eulderink**, COO, Royal Vopak

## It's still a man's world

Over the past decade, there has been a steady – and highly overdue – increase in the proportion of women in top management positions. Yet senior operations roles continue to remain an exception to this rule. Among the COOs surveyed for this report, an overwhelming 90% were male, although the proportion is lower in rapid-growth markets than in developed ones. Metropolitan International's Gerda Ochse, one of the few female operations leaders interviewed, points out that the role can often involve large amounts of travel, which may discourage women with young families from putting themselves forward. She notes, however, that the situation is improving, and that there are more female senior operations professionals now than at any time in the past. And as the required skill set of the COO shifts towards the need for strong communication skills and a more strategic mindset, we may hopefully see a new generation of female COOs in the near future. "If I think back, I can definitely see it change. I think there's a clear place for both genders. The change might be slow, but it is happening," says Ochse.



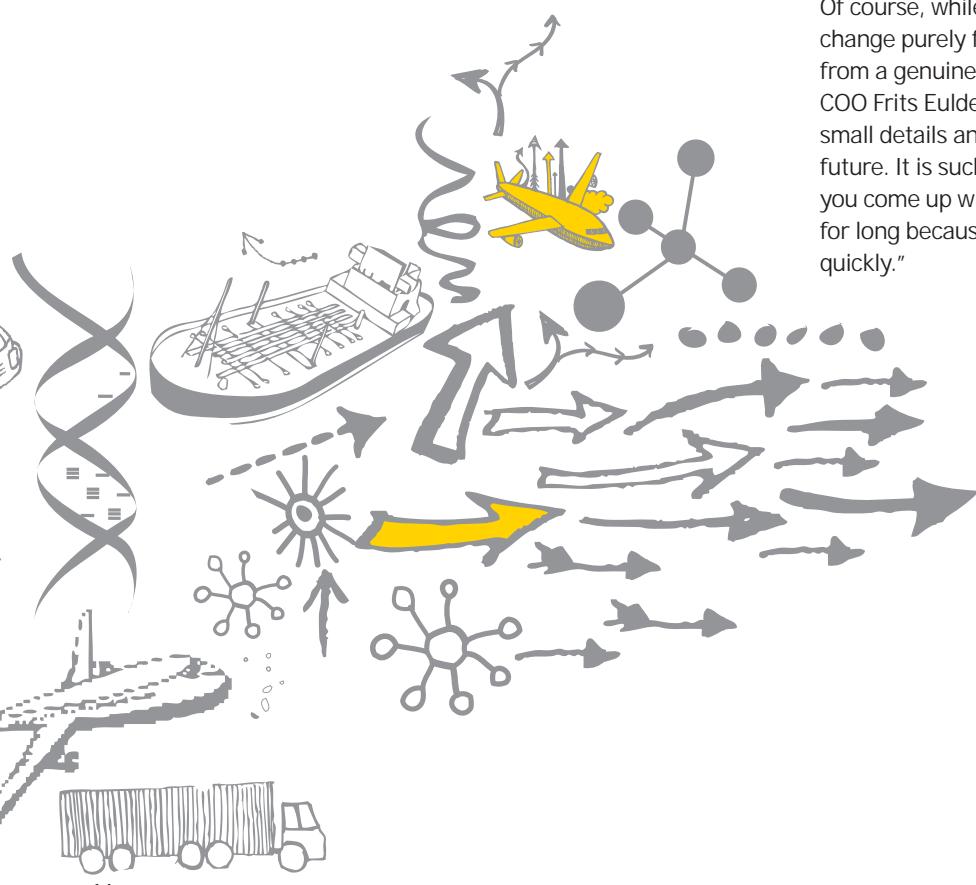
# Mastering change, shaping strategy

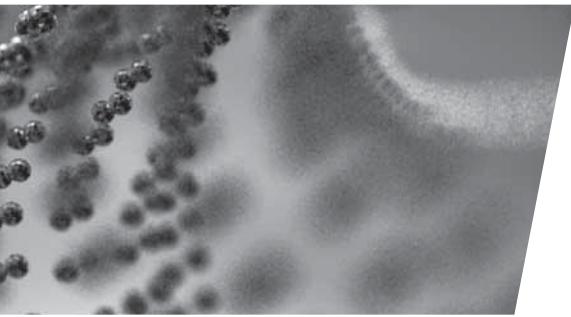
What is it that separates a COO from a typical operations manager? The latter is normally expected to take charge of a part of the business that is up and running and keep a close hand on the tiller. By contrast, the COO must work out what such processes ought to look like, and how to lead the change process to get it there. A mastery of change management is therefore a core part of the role for many, and often even how the position was secured in the first place.

But this is not all. In the same way that CEOs and business founders require entrepreneurial skills to devise new business ideas and create a culture of product and service innovation, the COO must also be "intrapreneurial." This means that they should constantly be on the lookout for ways to improve processes, reallocate assets and drive efficiencies in the pursuit of better performance. As a result, being comfortable with constant change is a given in the COO role. "In operations, the concept of continuous improvement means that you are always trying to find things to change for the better," says Frila Berlini Yaman, COO for Exploration and Production at MedcoEnergi Internasional, an Indonesian energy company.

The willingness to embrace change requires COOs to be comfortable making decisions, even if that choice turns out to be less than perfect and needs to be revised at a later stage. "Sometimes you don't have all the information but it's still usually preferable to make a wrong decision than to make no decision at all," says DiaSorin operations leader Dr. Dietmar Schell. "At least if you make a decision, and it turns out to be wrong, you have the opportunity to revise it. We can tolerate mistakes as long as they are corrected and as long as there is an opportunity to learn from them."

Of course, while COOs thrive on change, they should not engineer change purely for its own sake. "The need for change should come from a genuine concern for the company," argues Royal Vopak COO Frits Eulderink. "You do, however, have to be very alert to the small details and early signs of what might be significant in the future. It is such a transparent and competitive world that, even if you come up with something brilliant today, it won't keep you safe for long because your competition will be able to catch up very quickly."





**"My duty is to create a well-oiled machine that will guarantee that targets can be accomplished within the framework of the strategy."**

**Denis Chuiko, COO, Russian Post**

## A focus on transformation

Beyond the diverse day-to-day operational demands placed on the COO, many have become the "go-to" person for handling any larger business transformation initiatives. They are major undertakings, because the pace of change continues to accelerate within the business environment. Responding to this demands tenacity and a hunger for continuous improvement. And, given the focus and capabilities of the COO, the role is especially well suited to managing such transformation.

Much is already being done. Half of COOs polled are closely engaged in discussing the role that operations can play in business transformation, and 57% see this as a key part of creating value for the organization. But what is important to realize is that taking responsibility for such initiatives is a key part of how the COO can make the shift from a wholly operational perspective to a more strategic one.

Quite simply, dealing with this level of change ties in with the wider issue of where the job ought to be focused: enabling the CEO's vision. At its core, this involves turning an abstract corporate strategy into a working daily reality, deploying specific frameworks and processes that can deliver on the strategic objectives set for each part of the organization. "My duty is to create a well-oiled machine that will guarantee that targets can be accomplished within the framework of the strategy," as Denis Chuiko, COO of Russian Post, the state postal operator, puts it.

The need for business transformation can also be a driver for appointing a COO in the first place. Earlier in 2012, Nokia Siemens Networks created a new COO role, specifically in order to take responsibility for the "transformation of the company's mode of operations and business performance management," as the firm described it.<sup>8</sup> For the company's CEO, Rajeev Suri, the new role serves to drive the restructuring of the business in line with its new overall strategy, which includes the divestment of a range of non-core assets.

In such a position, the COO controls the allocation and prioritization of corporate resources and assets in order to achieve the strategic goals. Once a decision has been made, he or she must ensure that the right resources are in the right places. "The COO needs to understand which are the most important strategic initiatives and have a complete view of the people, resources and other assets that are available to implement these choices," explains Hennie Human, Performance Improvement Advisory Leader for Africa at Ernst & Young. "This should extend beyond the organization to encompass service providers, contractors and

other external stakeholders. You then need the ability to coordinate these assets and match them to different strategic initiatives."

There is also a strong link between this aspect of the role and people development, because without the right teams in place across the company's operations there is no execution of strategy. COOs must, therefore, be deeply involved in talent management to ensure that there is a strong pipeline of managers who are aligned with the changing world outside and the company's own transformation agenda.

When this is done well, it can be exceedingly powerful. And it also highlights the significant potential of the CEO-COO tandem act. At one major US pharmacy benefits manager, for example, the CEO and COO have collaborated closely over the past seven years to transform the company from a siloed, functional business into one that is customer-centric and process-oriented. Importantly, the two executives worked together on the overall strategy and implications, before the COO then led the process. This is a clear example of where the role ought to be positioned, and how leading significant organizational change can be a "door-opener" for the COO to play a more strategic role in the business.

## Joining the strategic inner circle

Indeed, while all COOs cut their teeth amid the day-to-day operational efforts, this is not necessarily what will help propel them to the top of the organization. For COOs eager to maintain the momentum of their rise, they need not only to master operational excellence, but to become a driver of strategy as well. Those CEOs who are willing to share the load can find an invaluable ally in the COO, someone who can help them grapple with the company's strategic decision-making and then being ideally placed to execute the resulting strategy. Getting this right will demand both strong leadership and a contact book stuffed with allies across the business (see next section for more on the skills and contacts needed for success).

Nevertheless, this switch in focus also highlights a dichotomy in the role of today's COOs. On the one hand, they must focus their attention on the here and now. This demands a deep involvement across the company's operations to ensure that they are performing at the optimal level. On the other hand, they must find the space to shape longer-term strategy, because they are best placed to assess the company's readiness. "It's very important for the COO to play an active role in defining strategy, because this makes it much easier to cascade that strategy through the organization and ensure alignment with operations," says CHIC Group COO Vivienne Ouyang.

<sup>8</sup> "Nokia Siemens creates COO position to oversee re-org," *Total Telecom*, 16 March 2012.

There is much to be gained by getting this right. By obtaining a dual perspective – of both high-level strategy and lower-level processes and operations – COOs can identify emerging trends and immediately assess their implications. They are also typically located at the nexus between in-house operations and external demands and customers. Indeed, Steven Phan, COO for the Asia Pacific region at Ernst & Young, believes that COOs can only play an active role in defining strategy if they are close to the customers they serve. "You must have a good feel for what the market wants and understand what clients will need tomorrow as well as today," he says.

In turn, this more commercial focus can become self-reinforcing from a strategic perspective, as it requires COOs to do all they can to be represented early on in decisions, whether planning a new product or entering a new market. In any such decision, getting the COO engaged at the idea-generation stage helps in assessing feasibility and exploring the full range of options. "In our organization, there is a pull factor to get the COO involved in strategic decision-making," explains Iqbal Khan, COO of Old Mutual Investment Group, an asset management firm in South Africa. "It helps to bring us in earlier because we can help the company to make a more informed decision about what the landscape out there is like."

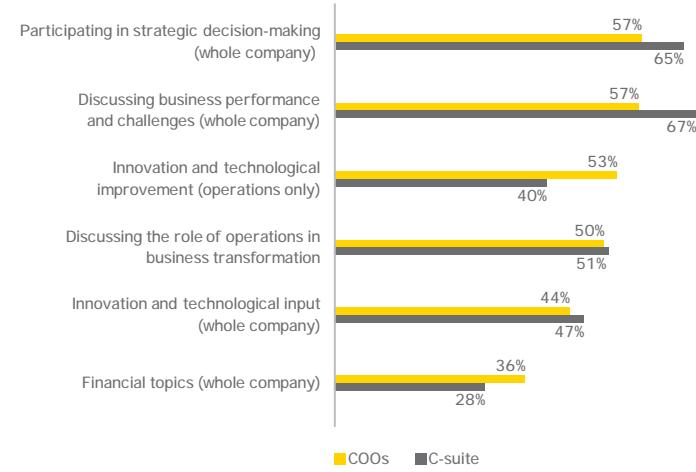
Gerda Ochse, CTO at Metropolitan International, a financial services firm, agrees. "Before you go into a marketing campaign and start developing a product, you need to understand whether your systems and your administration capability can handle that," she says. "If you are not involved initially and they just hand it over to you then it's normally a failure."

This is particularly the case in an M&A context, in which the integration and realization of synergies are a critical part of the success of any deal. "You will find the COO heavily involved in the evaluation of targets and the assessment of synergistic possibilities," says Khan. "Without that involvement at an early stage, companies have much lower chances of deal success."

Among our COO respondents, many believe that they are already playing a prominent strategic role. Asked about the extent to which they actively engage with the board on a variety of issues, they single out two areas as being especially important: participating in strategic decision-making and discussing business performance and challenges. Their C-suite peers place an even greater emphasis on this strategic function for the COO. This suggests that the C-suite expects the COO to get deeply involved in these discussions and not just to be a pure operational player. Even so, this still requires their cooperation, not least in ensuring a clear definition

of the COO's role, to avoid any overlap and to provide the necessary environment for such a function to succeed. The company should also apply a wider range of metrics, beyond purely operational ones, in assessing the COO's performance. However, in too many companies this is not yet the case.

**Chart 4: extent to which COOs actively engage with the board on key issues**



(Percentage of respondents who have chosen 9 or 10 on a scale from 1 = does not apply to 10 = fully applies)

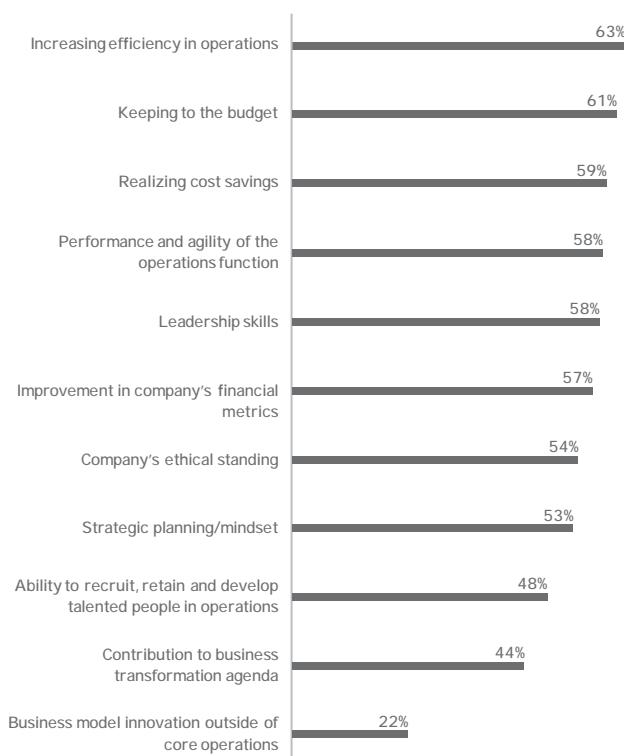
## Rethinking the metrics for success

One barrier to making a greater strategic contribution may be the extent to which COOs are measured on their strategic performance. For many operations leaders, the metrics that matter most are still largely operational. When asked about the criteria by which they are measured, the top three metrics are all purely operational: increasing efficiency; keeping to the budget; and realizing cost-savings. Having a strategic planning and mindset comes much further down the list.

Given that operations remain central to the role of the COO, this is to be expected. But, if COOs are to play a more meaningful role in strategy, CEOs and boards must do more to explore different ways of measuring their contribution. In addition to operational KPIs, they should consider adding strategic ones, such as long-term revenue growth, the successful completion of change projects, and talent development. "We have several key performance indicators for both operational and strategic issues, including those about delivering results, those on building capabilities and then finally those relating to creating the future," says Charles Robert Davis, Vice President Director at Darya-Varia Laboratoria.

Applying more strategic KPIs can help to accelerate the transition of the COO to a more strategic role, but care needs to be taken when combining them with operational metrics, because the periods required for measurement can be quite different. "You can tell fairly quickly how effective an operational decision was, but it's more difficult to get that timely feedback on a strategic decision," says Royal Vopak COO Frits Eulderink. "We may only know how successful our strategic decisions were in a number of years' time, so that makes it more difficult to determine whether you are on the right track."

**Chart 5: extent to which COOs are measured on the following criteria**



(Percentage of respondents who have chosen 9 or 10 on a scale from 1 = not at all to 10 = absolutely)

## Companies get analytical

The rise of "big data" and analytics is good news for COOs. Companies now have more information than ever on which to base their decisions. Provided they have the infrastructure to collect and analyze this data, COOs have a powerful opportunity to identify emerging trends and combine datasets to create new insights into the business. Among the COOs questioned for this research, 46% say that understanding analytical and predictive models is very important in their role. Other C-suite executives see these attributes as even more critical, with 56% arguing that they are essential in order for COOs to perform at their best. There is also strong agreement among the C-suite peers, however, that COOs need to improve their knowledge of analytics.

This greater focus on analytics is causing a shift in the COO role and helping to accelerate the transition away from a purely operational focus to one that also encompasses a forward-looking, strategic perspective. "The COO now has to be very accomplished at understanding what the future will bring," argues Mark Pavlovich, Director for Operations Analysis at SavaSeniorCare Administrative Services. "Given how fast-paced markets are, it might be a mistake to focus too much attention on historical data. Analytics is coming closer and closer to real time and that provides a powerful set of tools to understand the impact of a range of variables on every aspect of the business."

As analytics and big data become increasingly valuable to companies, the COO should be at the center of these discussions. "Analytics and the usage of data are absolutely top of the agenda in any discussion between CIO and COO, because one unique insight gained from data can make the difference between an unprofitable business and a profitable one," says David Bulman, CIO of Virgin Atlantic Airways. "Big data means that we can start to take datasets and combine them in innovative ways to give the COO unique insights into how he can optimize operations in ways that he may not have thought of yet," he says. All this implies significant scope for closer ties between the COO and CIO in future, as a greater emphasis on an analytical approach is demanded.

This increased reliance on information to drive decision-making has an impact on the capabilities that COOs require. To some extent, experience counts for less, as the role of hard evidence becomes more prominent. As more data becomes available, a far more analytical approach is emerging. This in turn will require COOs to get more to grips with insights-based decision-making, while still balancing this with their instincts and unique experience.

# Making the contacts, managing the politics

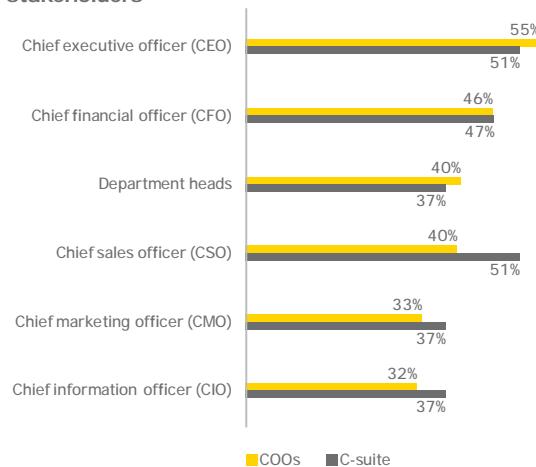
A well-stocked contact book is one of the keys to success in a COO role, along with a talent for influencing others and networking. COOs must manage in three directions: downwards, by building relationships of trust with the workforce; upwards, by creating a strong bond with the CEO and the board; and outwards, by developing positive interactions with suppliers, customers and investors. This complex web of relationships requires COOs to act simultaneously as diplomats, brokers, influencers, leaders and listeners. They must also be able to adapt their leadership style to suit different audiences, while at the same time maintaining consistency in their behavior.

## Team dynamics in the C-suite

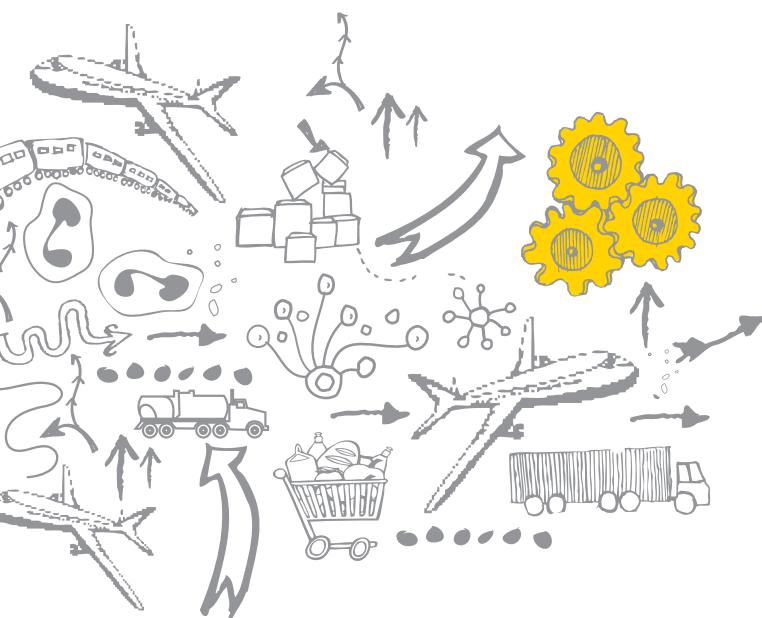
The role of a COO is highly dependent on the context of the company's particular industry, as well as the internal dynamics and politics of the management team. COOs, therefore, need to pay careful attention to relationships across the executive suite. They are expected to complement other members of the management team and adapt according to the needs of the company's current situation. This can make for a highly fluid and dynamic role. However, if not handled well, there is a risk of confusion, overlap between roles and unclear accountability for decision-making.

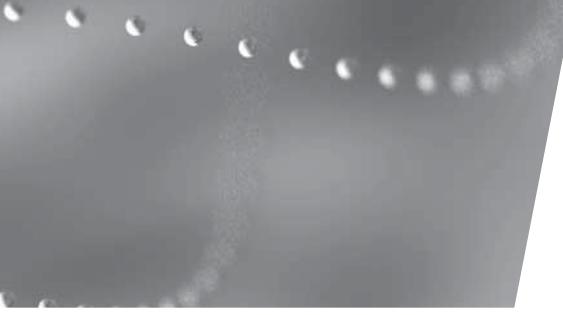
Among those polled for this research, these issues seem to be well understood. COOs have a robust set of relationships with their C-suite colleagues, with 87% saying that they have established a strong network with other senior management team members. Indeed, when looking at individual relationships, these also appear to be extremely positive. More than half of COOs, for example, rate their relationship with the CEO as very good, and just under half say the same about their relationship with the CFO. The rest of the C-suite are often even more positive about the quality of the COO's relationships. All this suggests that COOs are adept at handling the dynamics of the management team. The only exceptions to this picture are in the COO's relationships with the CEO and department heads; COOs generally think the relationships are better than do their peers on the management team.

Chart 6: strengths of COO's business relationship with internal stakeholders



(Percentage of respondents who have chosen 9 or 10 on a scale from 1 = needs substantial improvement to 10 = absolutely excellent)





Visionary ideas may sound good in the executive suite, but without the COO's endorsement that they are operationally feasible, they count for very little.

One relationship the COO needs to handle with particular sensitivity is that with the CIO. Overall, COOs view this relationship as one of their least successful among executives: just 32% consider it to be very strong. Depending on the company's structure, many CIOs may report into the COO, or at least be engaged in projects that COOs have a hand in as well. Given the scope for functional overlap, the COO and CIO may find themselves increasingly focused on the same goals if their respective remits are not carefully defined. Managed correctly, the relationship can be mutually beneficial. The COO gains a partner who can assist in navigating the complexities of rapid ongoing technological change, and the CIO gains an ally with a louder voice within the C-suite. "Both CIO and COO have the same objective of providing efficient operations and I am the enabler of that," argues Dr. Josef Richter, the CIO of HOERBIGER Group, who sees himself as a bridge between corporate IT and the wider business.

### The CEO: If you get just one partnership right, make it this one

As earlier examples showed, the relationship between the CEO and COO is arguably the most important for the company's success. It is also the most vital for the COO's overall career. When asked about the importance of a range of C-suite executives to the development of the COO's career, the CEO stands head and shoulders above the rest. Nearly 7 in 10 (68%) of COOs consider this relationship to be essential to their career. By contrast, the next highest – the CFO – is only half as important (34%), followed by department heads and the CSO (33% and 32% respectively).

When the CEO-COO partnership is working well, the double act can be extremely powerful, playing to the strengths of each individual and ensuring that both internal and external affairs receive the same degree of attention. But if tension arises, or if there is overlap between roles and responsibilities, then the relationship can quickly break down, causing serious damage to the wider organization. "You need to have complete trust, transparency and openness to make the relationship work," says Ngurah Adnyana, COO of PLN, an electricity distribution company based in Indonesia (see the box *Working in tandem* on page 20, for more on the CEO-COO partnership).

The best relationships between CEO and COO are generally formed when the two parties possess complementary skills. Among our respondents, an overwhelming proportion of both COOs and other members of the management team agree with this principle. A CEO who seeks to hire a COO in his own image will encounter problems. Instead, the two should have different competencies and abilities that can be combined for the greater good of the business. Related to this, both executives must therefore pay careful attention to defining the boundaries of their role and ensuring that other members of the management team understand the scope of their responsibilities.

In addition to possessing complementary skills and capabilities, a successful CEO-COO team should also have compatible personalities. "If you're an introvert CEO, then you're probably very happy to have a COO who will go to stakeholder meetings and engage the employees," says Markus Heinen, Performance Improvement Advisory Leader for Germany, Switzerland and Austria at Ernst & Young. "But if you're an extrovert CEO, then the last thing you need is a COO mirroring your own character. You need the right combination of behaviors and expertise."

Egon Zehnder International's Magnus Graf Lambsdorff argues that recruiters will typically expect a different set of competencies in a COO from those in a CEO: "COOs tend to be results-oriented and collaborative in terms of the ability to implement initiatives or change. With the development of organizational capability, the COO will typically concentrate on getting things done, rather than the long-term view, which is often the CEO's concern. Then in terms of change management, the CEO drives this through communication, while the COO achieves it through deeds and measures."

### The COO as challenger

With a clear understanding of the company's assets and capabilities, the COO can also challenge the CEO's strategic thinking, and participate in defining it. Visionary ideas may sound good in the executive suite, but without the COO's endorsement that they are operationally feasible, they count for very little. "The management team may reach a decision that meets their strategic objectives, but the COO should be there to bring things back to reality if those plans are too difficult or costly to implement," says MedcoEnergi Internasional COO Frila Berlini Yaman.

## Working in tandem

Making a success of the COO role requires a close link with the CEO. But ensuring an effective and conflict-free relationship requires both parties to adhere to a clear set of principles, which include the following:

### Trust is the foundation of success

The CEO and COO need to have complete trust in each other's abilities and integrity. If a CEO worries that the COO is overstepping the mark and seeking to take on some of the CEO's job, or if the COO worries that he or she is being undermined by the CEO, then the relationship will not work.

### Both visible and invisible

The CEO-COO partnership is often the closest on the management team. But, in some respects, operations need to be invisible to the CEO. Smooth-running operations mean that the CEO should barely notice them and can get on with the strategic side of running the company.

### The right role for the right reasons

If a COO is appointed merely to reduce the CEO's workload, then the role will be unsuccessful. CEOs need to recognize why they are hiring an individual and what skills the COO can bring that the CEO does not possess. Equally, COOs need to be confident that they are being hired for the right reasons, and that they will get the support they need from the CEO.

### Keep each other on speed-dial

Even though senior executives are frequently on the road, regular communication between CEO and COO is essential. Informal discussion slots are valuable, while close physical proximity between the two offices can help to foster an "open door" culture.

### Don't mix your messages

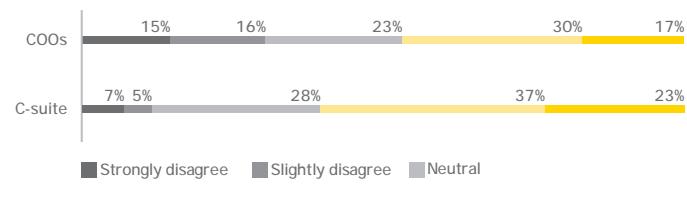
The rest of the business looks to the CEO and COO for direction. The two executives must ensure that they are consistent and avoid mixed messages. Even if they do not agree on a particular issue, they still need to put across a single point of view. This will ultimately be the CEO's mandate, so the COO needs to be comfortable with being occasionally overruled.

### Not afraid of a healthy disagreement

Despite the need for consistency and complete trust, the CEO and COO should also be willing to debate issues and put forward their views – in private at least. Both parties need to be comfortable with being challenged, as it is often through such debate that better decisions emerge.

Among the COOs questioned for this report, just under half agree that the COO is the only person who can challenge the CEO firmly but fairly. Interestingly, other members of the management team agree with this statement more strongly, indicating that, for them, the COO is better placed than the more functional members of the management team to challenge strategic thinking. This is an opportunity that COOs should welcome and encourage, by adopting a more proactive approach to participating in such discussions.

**Chart 7: extent to which the COO is the only person who can challenge the CEO firmly but fairly**



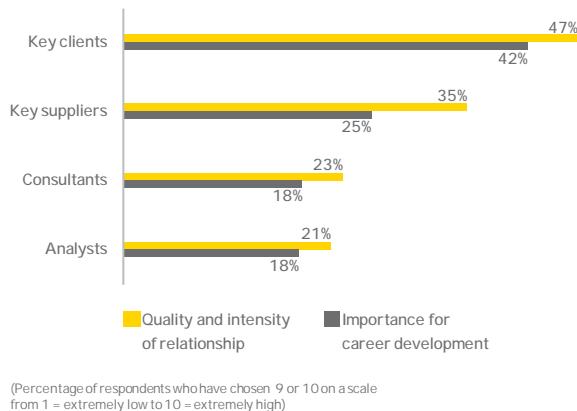
(From 1 = strongly disagree to 10 = strongly agree)

## Looking beyond the corporate walls

Internal relationships with the management team and workforce may be the COO's number one priority, but external interactions also matter greatly. As value chains become more complex and companies increasingly encompass a web of relationships across regional and organizational boundaries, the lines between internal and external stakeholder are more and more blurred. Both are now critical to operational excellence, and COOs cannot focus their entire attention on activities within the company walls without putting their credibility and the broader business at risk.

Our survey asked COOs about the strengths of their relationships with external stakeholders. What is most striking is that the strongest relationship of all was considered to be between the COO and key clients, even though the COO has not traditionally been seen as a client-facing role. Many of those interviewed for this report (42%) emphasized that strong client relationships not only enabled them to do their job effectively, but were also important for their overall career. This hints at another distinction between the modern COO and the traditional operations manager: the requirement to foster relationships not only within the organization, but with key external partners too.

**Chart 8: strengths of COO's business relationships**



More frequent engagement between COOs and investors is another sign that the role is becoming more outward facing. Although the CEO and CFO typically lead investor relations, a growing number of companies are engaging the COO in these discussions. This model is more common in highly asset-intensive industries, such as oil and gas, where the management of operations is particularly critical. “There is an expectation for the COO to play a more active role in investor roadshows, because our portfolio is growing and the variety of projects with which we are involved is now greater,” says MedcoEnergi Internasional COO Frila Berlini Yaman. “It therefore helps to have the COO available to talk about these projects and inject a sense of on-the-ground reality. It brings the projects alive in the minds of investors.”

### Networks to cross-pollinate ideas

Finally, COOs can derive great benefit from networking with their peers from other companies. In general, there are fewer forums for COOs than there are for other management roles, such as the CFO. This means that COOs have to work harder at developing these networks. The benefits, however, can be significant. Discussing experiences and challenges helps COOs to place their own roles in context, and can be a powerful lever to disseminate best practice and create a more formalized view of what the COO role entails. “Informal networking opportunities with other COOs can be a beneficial way to share experiences and knowledge,” notes Arno Dalheimer, Managing Director Manufacturing and Purchasing, Liebherr Machines Bulle.

But networks hold an additional advantage: they are a good way to attract operations staff from other sectors that can bring new ideas and a different perspective to the company. Bringing in new management in this way provides COOs with a fresh pair of eyes to help deal with ongoing challenges. It’s also regarded by many COOs as a positive aspect of staff turnover, benefitting the company in the long run.

The scope of the COO’s conversations with key clients varies. Some are only brought in when there are issues that members of the sales team either cannot resolve, or do not want to because they feel it may damage their relationship with the customers. In fact, a number of COOs commented how their role in these situations was less about meeting clients for the sake of having lunch and more about delivering bad news or dealing with a difficult issue.

In other companies, there is now a triumvirate of senior executives who lead customer contact – the CEO, CFO and COO – but the type of conversation that each will have may differ. “What we see is that customers choose the topics according to whom they are speaking,” explains Axel Jaeger, CFO of Carl Zeiss SMT, a producer of semiconductor manufacturing technology. “For the COO, it tends to be more of a technical discussion whereas, with me as CFO, customers typically want a broader discussion about the company perspectives and its business development.”

Supplier relationships have long been central to the COO role. Survey respondents are very positive about their relationships with suppliers, 35% rating them as extremely successful. For some COOs, the nature of their relationship with suppliers has evolved from the transactional to the strategic, and offers win-win situations for both parties. For example, relationships are structured to be long term, and in such cases the COO is happy to share technology and expertise in order to enhance the suppliers’ capabilities. “I spend a lot of time liaising at the most senior level with our suppliers to understand the issues that we both face and how we can improve them in a way that is beneficial for both parties,” explains Royal Vopak COO Frits Eulderink. “Increasingly, operational performance is a key part of a company’s reputation and recognition.”

# The COO's contribution

There are few roles in a company that are as broad as the COO's. Operations leaders see every aspect and function of the business, and engage with an extremely diverse range of internal and external stakeholders. Although the precise responsibilities of the COO will differ from company to company, we believe that there are six key areas in which operations leaders play an active role. Successful COOs need to master each area, from the basics of ensuring that there is suitable operations management in place through to defining the future shape of the business.



**DEVELOPMENT**

Being the business transformation owner

Bringing business model innovation

Shaping the future of the business

Driving key change and transformation initiatives

Lining up the troops

Managing the strategic assets of the company

**The COO's contribution**

6

5

4

3

2

1

Keeping the belts running

Ensuring suitable operations management

Optimizing operational processes

Making the vision real

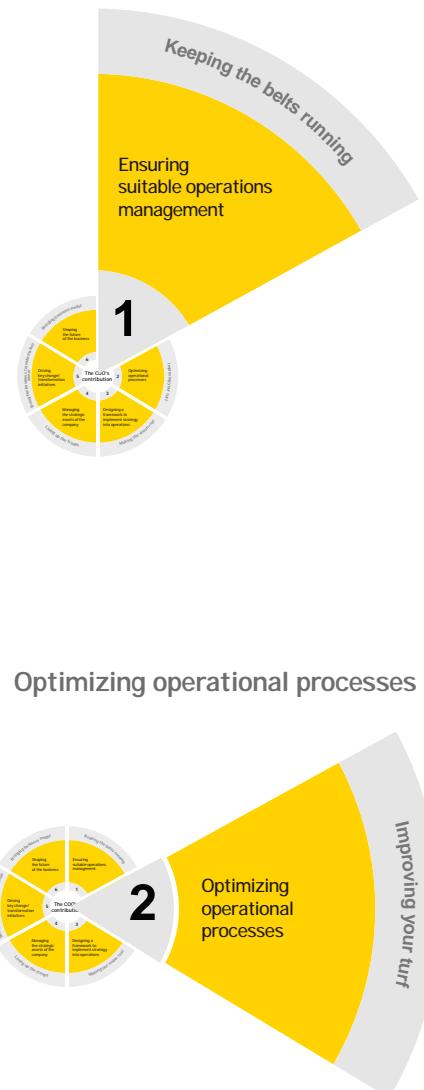
Designing a framework to implement strategy into operations

**EXECUTION**

Improving your turf

**ENABLEMENT**

## Ensuring suitable operations management



Core skills	Core knowledge
<ul style="list-style-type: none"> <li>Managing operating processes within the value chain (including alignment of support functions)</li> <li>Managing infrastructure and interfaces within the value chain</li> <li>Budget planning and allocation (e.g., make-or-buy decisions)</li> <li>Maintaining transparent cost monitoring and reporting</li> <li>Setting up appropriate performance targets, monitoring of progress and KPI reporting to leadership</li> <li>Setting up business continuity management</li> <li>Maintaining and monitoring staffing, expectations and motivation to fulfill organizational requirements</li> <li>Managing operational risk (including controls)</li> </ul>	<ul style="list-style-type: none"> <li>Detailed knowledge of internal processes and procedures as well as product and service offerings</li> <li>Detailed knowledge of demand and supply situation</li> <li>Understanding the value drivers of the company</li> <li>Knowledge of budgeting, costing and accounting principles relevant to the jurisdictions, industry and market in which the organization operates</li> <li>Knowledge of cost-efficient sourcing and logistics strategies</li> <li>Knowledge of suitable production systems</li> <li>Risk management knowledge</li> <li>Knowledge of sustainability and ethical standards</li> <li>Fundamental understanding of promise to stakeholders</li> </ul>
Key areas of experience	Key relationships
<ul style="list-style-type: none"> <li>Strong operational experience (e.g., logistics management, production management, plant management, capacity planning)</li> <li>Process management</li> <li>Budget management and controlling (e.g., pricing and profitability analysis, cost management)</li> <li>Customer relationship management</li> <li>Supplier relationship management</li> <li>Risk management (including incident management)</li> <li>Conflict management</li> </ul>	<ul style="list-style-type: none"> <li>Chief executive officer</li> <li>Chief supply chain officer</li> <li>Chief sales and marketing officer</li> <li>Chief financial officer</li> <li>Head of procurement</li> <li>Heads of key support functions: risk, IT, HR</li> <li>Key suppliers and (depending on sector) key customers</li> </ul>

## Optimizing operational processes

Core skills	Core knowledge
<ul style="list-style-type: none"> <li>Increasing operational agility (e.g., flexibility of the value chain)</li> <li>Optimization across silos (i.e., value chain optimization)</li> <li>Aligning resources and finding synergies within operations</li> <li>Increasing efficiency (e.g., integrated supply chain management, profitability and cost improvement, working capital management)</li> <li>Improving contribution of support functions to operations</li> <li>Having strong analytical skills</li> <li>Implementing appropriate reward and recognition models</li> <li>Leveraging innovation and technological improvement</li> </ul>	<ul style="list-style-type: none"> <li>End-to-end understanding of the value chain</li> <li>Detailed understanding of business requirements</li> <li>Knowledge of continuous improvement measures and continuous improvement processes</li> <li>Knowledge of supplier assessments</li> <li>Knowledge of benchmarking tools to measure against peers</li> <li>Understanding of key geographic and macroeconomic issues</li> <li>Understanding of analytical and predictive models</li> <li>Knowledge of (technological and IT) trends in the sector</li> <li>Insights into sustainability trends and requirements</li> </ul>
Key areas of experience	Key relationships
<ul style="list-style-type: none"> <li>Business process management and optimization</li> <li>Efficiency measures (e.g., lean management)</li> <li>Multifunctional business services transformation (e.g., outsourcing, SSC)</li> <li>Financial management (planning and forecasting)</li> <li>Logistics management</li> <li>Supplier collaboration</li> <li>Customer relationship management and collaboration</li> </ul>	<ul style="list-style-type: none"> <li>Chief executive officer</li> <li>Chief supply chain officer</li> <li>Chief financial officer</li> <li>Business unit heads</li> <li>COOs of other companies</li> <li>Network within industry</li> <li>Key customers and key suppliers</li> <li>Consultants</li> </ul>

## Designing a framework to implement strategy into operations

Core skills	Core knowledge
<ul style="list-style-type: none"> <li>Setting up appropriate organizational structures</li> <li>Derive goals for business units from the vision and strategy</li> <li>Operating model design and implementation to achieve strategic goals</li> <li>Implementing operating systems, establishing and implementing operating policies, directives, procedures and KPIs to support corporate strategy</li> <li>Assisting support functions (HR, IT, etc.) in setting up procedures that link to corporate strategy</li> <li>Translate strategic C-suite goals into a tangible working reality for employees</li> <li>Integrity, visibility and trust</li> </ul>	<ul style="list-style-type: none"> <li>Knowledge of the complete value chain, related processes and procedures</li> <li>Understanding the various dimensions of different operating models (operational strategy, governance, process, technology, organizational design, performance)</li> <li>Knowledge of strategic decision-making processes</li> <li>Knowledge of the company's human capital and operating capabilities</li> <li>Knowledge of best practices within the sector</li> </ul>
Key areas of experience	Key relationships
<ul style="list-style-type: none"> <li>Participation in development and design of vision, mission and strategy</li> <li>Assessment of operational readiness and implementation choices (feasibility analysis)</li> <li>Design and implementation of organizational model</li> <li>Experience of various methods of communication</li> <li>Media experience</li> </ul>	<ul style="list-style-type: none"> <li>Chief executive officer</li> <li>Chief financial officer</li> <li>Chief information officer</li> <li>Business unit heads</li> <li>Heads of key support functions: risk, IT, HR</li> <li>Employees</li> <li>Corporate communications or internal communications</li> <li>Consultants</li> </ul>

## Managing the strategic assets of the company



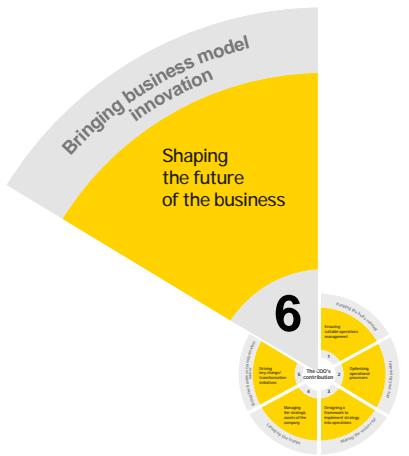
Core skills	Core knowledge
<ul style="list-style-type: none"> <li>Managing portfolio monitoring activities</li> <li>Designing of manufacturing footprint</li> <li>"Owning" intellectual property (including setting up strategy and processes to generate, identify and secure intellectual property)</li> <li>Creating pipeline of talent: influencing attraction and retention</li> <li>Mentoring, coaching and facilitating key talent within operations</li> <li>Aligning resources and talent management agenda</li> <li>Implementing appropriate models for rewards and recognition of staff</li> <li>Support brand management and creation of reputation by delivering products and services of highest quality</li> <li>Continuously enforce the value system of the company (e.g., leading by motivation and engagement, "walk the talk")</li> </ul>	<ul style="list-style-type: none"> <li>Knowledge of governance, risk, compliance and legal issues relevant in the market</li> <li>Deep insight into industry and key geographical markets as well as customer trends and competition</li> <li>Human capital knowledge</li> <li>Knowledge of management, protection and building of brand</li> <li>Situational leadership skills with regards to different target groups</li> <li>Social competency</li> <li>Different leadership styles</li> </ul>
Key areas of experience	Key relationships
<ul style="list-style-type: none"> <li>Scenario planning</li> <li>Intellectual property management</li> <li>Risk management (including disaster management)</li> <li>Leadership &amp; people management (including performance and talent management)</li> </ul>	<ul style="list-style-type: none"> <li>Chief executive officer</li> <li>Head of corporate development and strategy</li> <li>Head of research and development</li> <li>Chief sales and marketing officer</li> <li>Chief human resources officer</li> <li>Corporate communications or internal communications</li> <li>Employees</li> <li>Investors, banks, regulators</li> </ul>

## Driving key change and transformation initiatives



Core skills	Core knowledge
<ul style="list-style-type: none"> <li>Building commitment among stakeholders by using "their language" and inspiring them</li> <li>Being specific: setting up clear objectives and key measures of change in the context of various cultural and corporate specifications</li> <li>Creating a clear plan with transparent outline of benefits</li> <li>Managing skills and transformational activity alignment (e.g., matching of talent to change initiatives)</li> <li>Designing and implementing the right behaviors according to the key area of change</li> <li>Leading by motivation and engagement, "walk the talk"</li> <li>Showing integrity and credibility</li> <li>People development skills</li> <li>Implementing coaching and corrective practices</li> <li>Shape the company culture</li> </ul>	<ul style="list-style-type: none"> <li>Knowledge of change management techniques and pitfalls</li> <li>Understanding of analytical and predictive models</li> <li>Knowledge of strategic and operational planning</li> <li>Detailed understanding of operations role in business transformations</li> <li>Cultural expertise</li> <li>Knowledge of alternative and innovative communication methods to reach consensus</li> <li>Practical understanding of people management implications during change and transformation projects</li> <li>Situational leadership skills with regards to different target groups</li> </ul>
Key areas of experience	Key relationships
<ul style="list-style-type: none"> <li>Large-scale transformation management</li> <li>Project management</li> <li>Scenario management</li> <li>Change management</li> <li>Feasibility analysis</li> <li>Internal communication</li> </ul>	<ul style="list-style-type: none"> <li>Chief executive officer</li> <li>Chief information officer</li> <li>Chief human resources officer</li> <li>Employees</li> <li>If appropriate: business unit heads and heads of key support functions</li> <li>Consultants</li> </ul>

## Shaping the future of the business



Core skills	Core knowledge
<ul style="list-style-type: none"> <li>Ability to proactively share and discuss strategic options (e.g., organic growth, M&amp;A)</li> <li>Innovating existing business model by linking market developments back to operations</li> <li>Ability to articulate the corporate vision to the key stakeholders, using language relevant to their function</li> <li>Challenging C-suite and CEO opinions, while also being a trusted advisor</li> <li>Discussing operational readiness</li> <li>Creating a framework for the companies' innovation processes (e.g., by engaging workforce, clients and suppliers)</li> <li>Portfolio alignment</li> <li>Entrepreneurial and flexible approach towards challenges</li> <li>Ensuring usage of enabling technologies and workflows</li> <li>Networking skills</li> </ul>	<ul style="list-style-type: none"> <li>Understanding of analytical and predictive models</li> <li>Strategic mindset and planning capabilities</li> <li>Knowledge of business modeling and design thinking</li> <li>Knowledge of innovation management best practices</li> <li>Deep insight into technological developments and innovations</li> <li>Deep insights into industry and key geographical markets as well as customer trends and competition</li> <li>Broad economic knowledge</li> <li>Adoption of best practices from other areas or competencies</li> <li>Marketing knowledge (regarding new products)</li> <li>Human dynamics within the leadership team and politics</li> </ul>
Key areas of experience	Key relationships
<ul style="list-style-type: none"> <li>Strategic planning</li> <li>Marketing and communication</li> <li>Product and service development</li> <li>Innovation management</li> <li>Business model innovation</li> <li>Business case adaption</li> <li>Feasibility analysis</li> <li>Scenario planning</li> <li>Diplomacy</li> </ul>	<ul style="list-style-type: none"> <li>Chief executive officer</li> <li>Chief innovation officer</li> <li>Chief financial officer</li> <li>Head of corporate development and strategy</li> <li>Chief sales and marketing officer</li> <li>Corporate communications or internal communications</li> <li>COOs of other companies</li> <li>Other companies in the same business</li> <li>Investors, banks, regulators</li> <li>Consultants</li> </ul>

# Rapid-growth markets: shaping tomorrow's leaders

The economic prospects of slow-growth developed markets and newer rapid-growth markets have sharply diverged, with companies from around the world looking to the latter for opportunity. This switch has significant implications for business priorities and for the COO: "The requirements of the COO role are dependent on time, place and geographical area," explains Tata International's Business Head Leather Products, Arunotpal Thakur. "What is relevant for a COO in Western Europe might be different from what is important to a peer in South Asia."

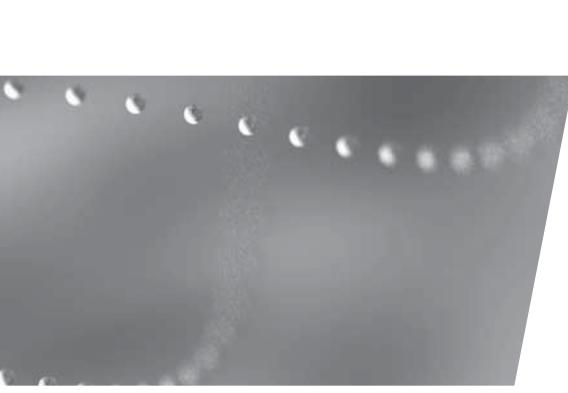
The differences between markets can be striking. COOs within developed markets often continue to face a challenging cost environment and limited organic growth potential. Executive teams are therefore closely focused on the bottom line. "In developed markets, the agenda is nowadays all around profit-maximization and cost-containment, against a backdrop of rising costs and more value-conscious customers," argues Markus Heinen, Performance Improvement Advisory Leader for Germany, Switzerland and Austria at Ernst & Young. "There is a real tension between this increasing complexity and the desire to simplify, reduce costs and get more from less."

By contrast, rapid-growth market executives face a very different set of challenges. With companies seeking to capture growth in markets where per capita incomes and budgets are rising rapidly, COOs here need to be more entrepreneurial and focused on gaining market share and scaling up capacity. "Rapid-growth market COOs are pushing to establish new production facilities, new partnerships and routes to market to grab market share in regions like Asia, Africa and the Middle East," says Heinen. "Their role is therefore more strategic and externally facing than an equivalent role in developed markets."

At the same time, however, COOs in rapid-growth markets cannot ignore efficiency. If they focus exclusively on scale and capacity, they will store up problems for later, because not enough thought has been given to how they can grow efficiently and sustainably. "In fast-growth markets, you can get away with inefficiency for now because the demand is so great," adds Tata's Arunotpal Thakur. "But you cannot ignore internal processes. It is critical for COOs in these markets to ensure that, even though they are in a bountiful situation from a growth perspective, they take care of operations and ensure that they become more efficient as they go along."

In a fast-growth environment, it can be too easy to scale up operations without thinking about optimizing processes and ensuring that the right people are in the right places. "I have often seen in high-growth economies that companies add staff and people without clearly defining what role they should play," explains Thakur. "Over time, you end up with a very high-cost business and it is at that point that the whole painful process of making operations more efficient begins."





“Rapid-growth market COOs are more strategic and externally facing than their equivalents in developed markets.”

**Markus Heinen**, Performance Improvement  
Advisory Leader for Germany, Switzerland and  
Austria, Ernst & Young

## Handling a risky environment

Scale is not the only challenge. COOs in rapid-growth markets must also pay close attention to risk and controls frameworks, not least because they face risks, such as arbitrary regulatory shifts and unpredictable labor strikes, which may not affect their peers in developed markets. Indeed, many of the operational issues that a developed market COO might take for granted – such as access to a skilled workforce, the availability of logistics for distribution, or the reliability of supply – are day-to-day issues for rapid-growth market COOs. About 6 in 10 of those polled in such markets pay close attention to risk issues, well ahead of those in mature markets (see box *DNA of the rapid-growth market COO* on page 28).

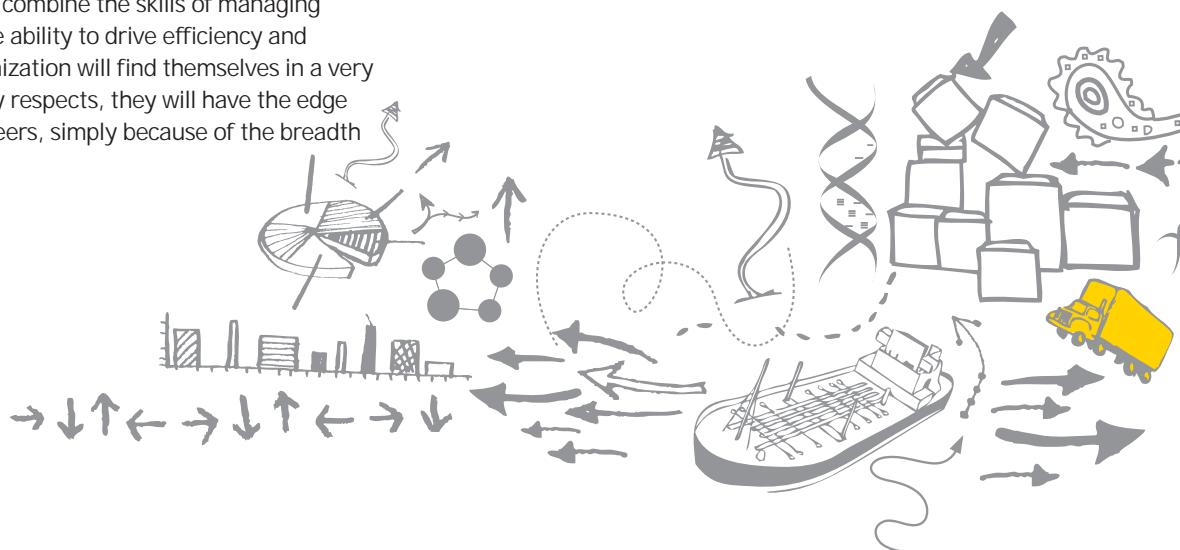
In fact, any risk and controls framework within such markets has to be very sensitive to local business and operating environment, balancing governance, people and methods, and practices. This approach encourages the right behaviors in an environment in which companies may be operating in market segments that have only recently come into existence. By setting parameters for decisions and creating a culture of risk awareness among rapid-growth market managers, companies can be more confident in giving autonomy to local managers and allowing them to make decisions at the required speed.

Of course, many COOs in major multinationals have to deal with both ends of the spectrum: protecting growth in some regions, while keeping pace with rapid expansion in others. But, in order to succeed in such a job, these executives will already have developed world-class skills and experience. Nevertheless, those COOs in rapid-growth markets who can combine the skills of managing growth and innovation with the ability to drive efficiency and change throughout their organization will find themselves in a very strong career position. In many respects, they will have the edge over their developed market peers, simply because of the breadth of their responsibilities.

## A new source of skills

This advantage may be less noticed today, but it is likely to have an impact on the nature of the global talent market over time. Already, countries such as Brazil and India have started to export talented executives to help run operations elsewhere. This is part of a wider switch in the flow of talent, which used to run almost entirely from the west, but now is more typically characterized by a multidirectional movement of skilled executives globally. This is a clear opportunity for rapid-growth market COOs: their dual focus on top-line growth and bottom-line performance, with related skills forged in challenging and competitive markets, will set them up well as tomorrow's leaders. Carlos Ghosn, the Chairman and CEO of both Renault and Nissan, is perhaps the most high-profile exemplar of this, having forged his earlier career working as COO of Michelin's South American business, before moving on to bigger things.<sup>9</sup>

Such ambition is reflected in the responses from those executives surveyed for this report. Overall, rapid-growth market COOs see a wider range of skills that they need to master as part of their job. At the same time, in recognition of this more challenging remit, they are also far more likely to have set their sights on the top CEO job. Over half (54%) believe they will make this switch in the next five years, compared with just 27% among developed market COOs.



<sup>9</sup> “Carlos Ghosn,” *Renault Website*, <http://www.renault.com/en/groupe-management-et-gouvernance/comite-de-direction/pages/carlos-ghosn.aspx>, accessed October 4th, 2012.



## DNA of the rapid-growth market COO

Running a business in a developing country, with the unique local challenges and often frantic growth rates, requires an operations leader with a quite different set of priorities. Compared with many of their peers in mature markets, who are typically adopting a more defensive position, several key variances stand out:

### Younger, more often female, and a sharper business background

Rapid-growth market COOs are slightly younger (average age of 47) than those in developed economies (average age of 49). The proportion of female COOs is 14% in rapid-growth markets, compared with just 6% in developed economies. A higher share of rapid-growth market COOs have a business-related qualification: 15% have an MBA, compared with only 8% in developed markets.

### A tougher role and more in need of skills development

Asked about the attributes that are most important to be successful as COO, respondents from rapid-growth markets rate every aspect more highly than their mature market colleagues. This suggests that the role is more diverse and requires a broader set of skills and capabilities to perform effectively. Rapid-growth market COOs also see greater room for improvement in their skill set, perhaps reflecting the ongoing evolution of their economies and their own role. For example, 66% think they need to improve their leadership skills, compared with 48% of mature market COOs.

### Closer ties to the C-suite, barring the CEO

COOs from rapid-growth markets report that they have closer relationships with other members of the management team than their peers in developed economies. The only exception is the relationship with the CEO, which respondents from developed markets say is stronger. These closer C-suite relationships may, in general, reflect the greater diversity of the rapid-growth market role, and their sharper focus on revenue-growing activities such as sales and marketing. In some economies, this often results from the greater value placed on personal relationships as a prerequisite for conducting business. Compared with those in mature markets, many more rapid-growth market COOs say networking (61% versus 33%) and mentoring (50% versus 29%) have been crucial to their career development so far.

### Riding the growth wave

Rapid-growth market COOs are more emphatic that they add value to the business in discovering and supporting growth opportunities. Fifty-seven percent rated this as a strong priority, compared with just 44% of COOs elsewhere. This is unsurprising, given the environment in which they operate, but it highlights the need for these individuals to be extremely entrepreneurial.

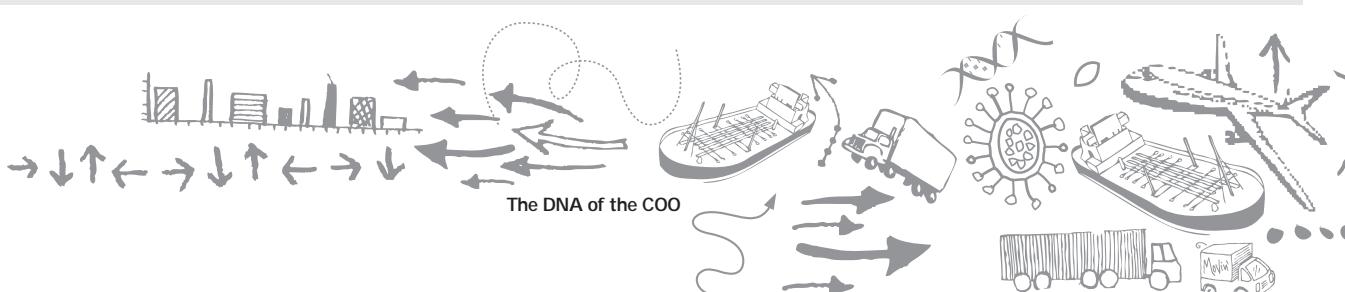
### Stronger emphasis given to risk management, too

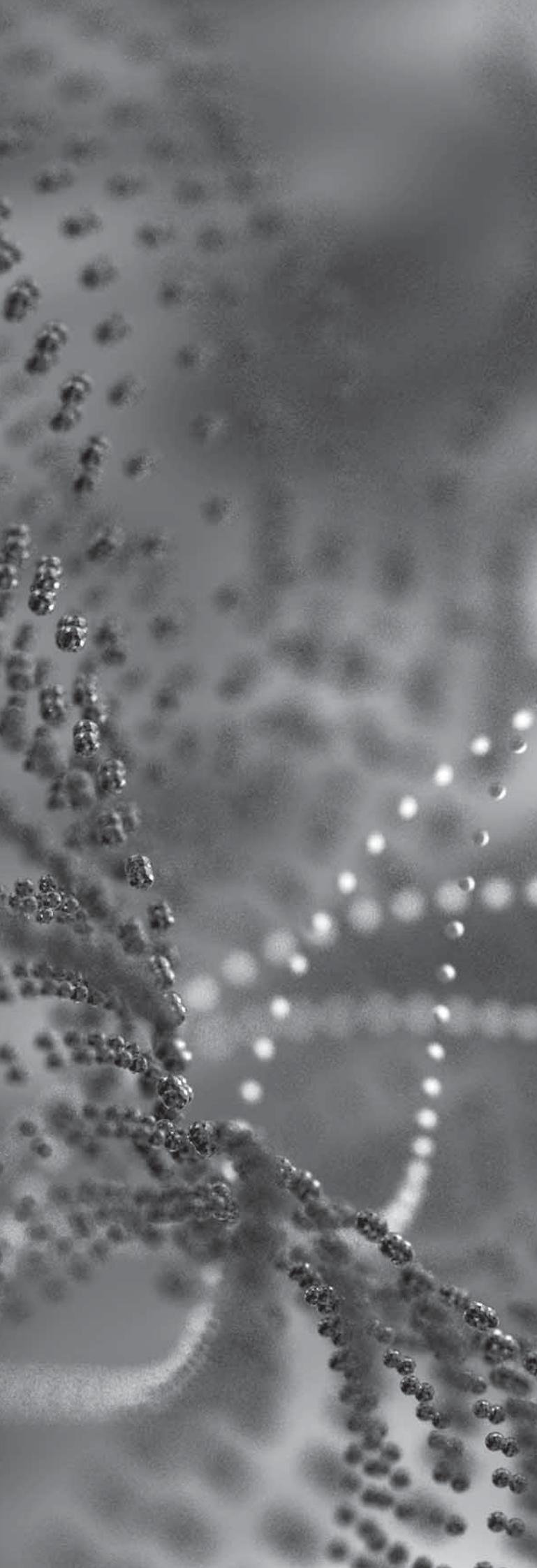
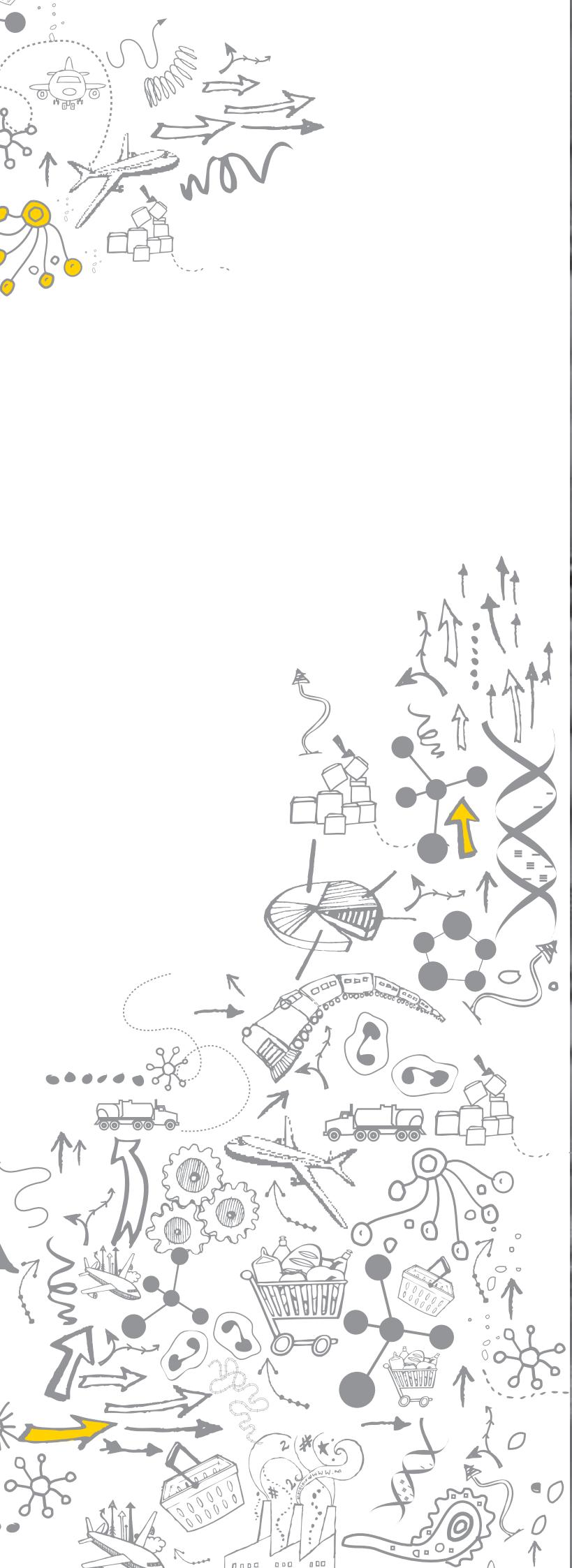
When companies are in expansion mode, there is a clear danger of failing to pay sufficient attention to risk management and controls frameworks. Rapid-growth market COOs are aware of this, and more often emphasize the value that they add through risk management: 59% say they strongly focus on this, in comparison to just 39% of mature market COOs.

### A shortage of available talent

Companies in rapid-growth markets face particular challenges in recruiting and retaining employees, because of rising wages and strong competition from other employers. Talent issues are a key area of priority for COOs in these markets. Accordingly, they are more closely measured on their ability to build, develop and retain talented teams.

The DNA of the COO



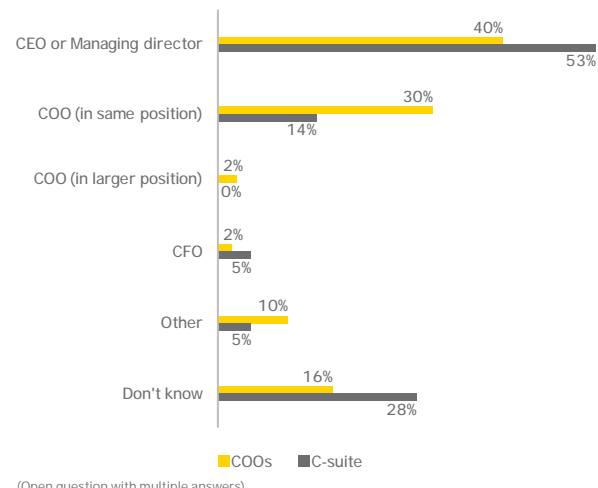


# The next rung on the ladder

Not every COO wants to become the next CEO. Indeed, 30% see the operations leadership role as a destination in its own right. Given the demands and breadth of the job, this is hardly surprising. The COOs surveyed for this report find the role extremely satisfying. The ability to influence corporate strategy, the potential for career development, and the broader perceptions of the role – to name just a few points – are all hugely appealing to those taking up such a position.

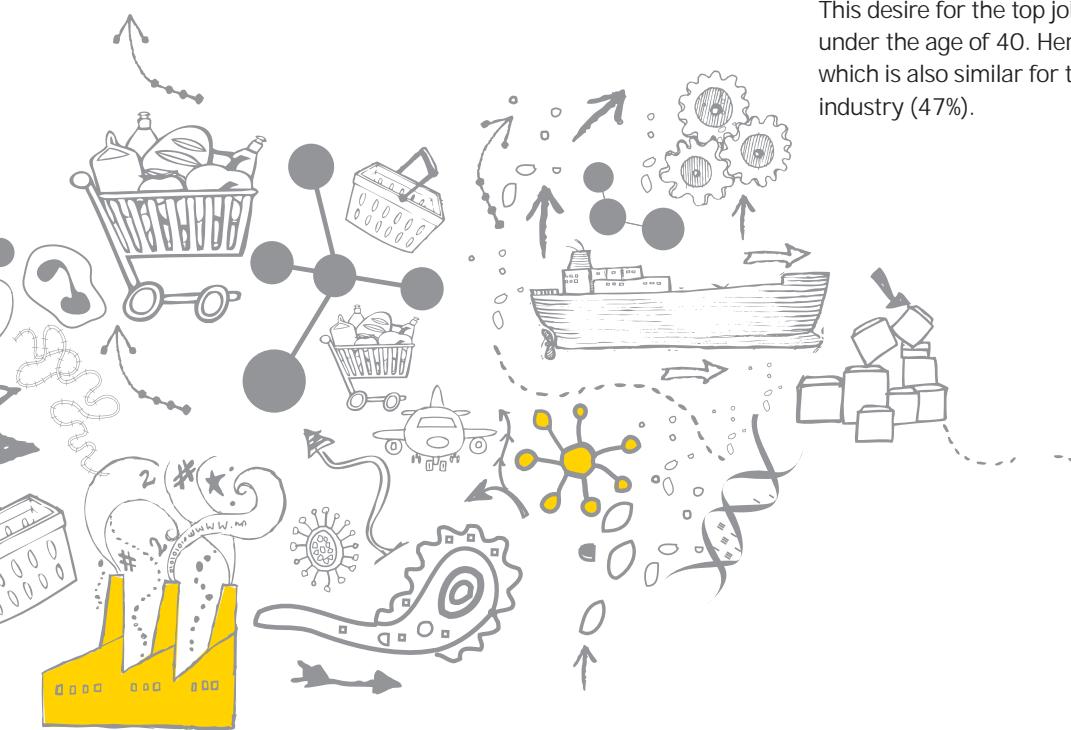
But many are hungry for more. Some 40% see themselves in a CEO or managing director role within the next five years. And their C-suite peers share that confidence: over half (53%) think that their current COO is likely to take the top job in five years' time. This is a resounding endorsement of the skills and capabilities of the COO.

Chart 9: COO's career aspirations in five years' time



(Open question with multiple answers)

This desire for the top job is especially noticeable among those under the age of 40. Here, about half (49%) hold such ambitions, which is also similar for those COOs within the consumer products industry (47%).





**"If the COO creates an environment in which people can thrive, then their job becomes so much easier."**

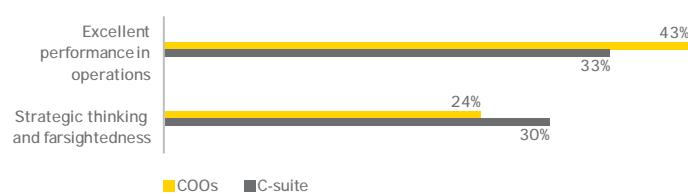
**Charles Robert Davis**, Vice President Director,  
Darya-Varia Laboratoria

There are numerous reasons why COOs make good candidates for the corner office. With a bird's eye view over the entire company's operations, COOs know their company inside out. They are often designated as the "second in command" in the company and may, in effect, run the entire business when the CEO is away. As COOs take on broader, more strategic responsibilities, they become stronger candidates still for the CEO position.

But although it may be increasingly common, the transition from COO to CEO can prove challenging. This is particularly true in cases where there is a strong CEO already, who is primarily the external face of the company. "There's a big difference to my mind between a CEO and a COO. If the roles were similar, then there would be no value in having both on the management team," argues Franz-Josef Elsing, CIO of Nordzucker.

There are signs from the survey that aspiring CEOs could be underestimating the scale of the challenge ahead. When asked what the COO of a big organization needs to do to achieve the next step in his or her career, 43% of COOs cite excellence in operations as the key factor, whereas just 24% point to the need for strategic thinking. But when the same question is posed to other stakeholders, the positions are different. They emphasize the importance of strategic thinking and downplay the need for excellence in operations. This suggests that COOs who aspire to the CEO role may need to shift their focus and play a more active role in strategy whenever they can.

**Chart 10: achievements COOs strongly believe are needed for promotion**



(Open question with multiple answers)

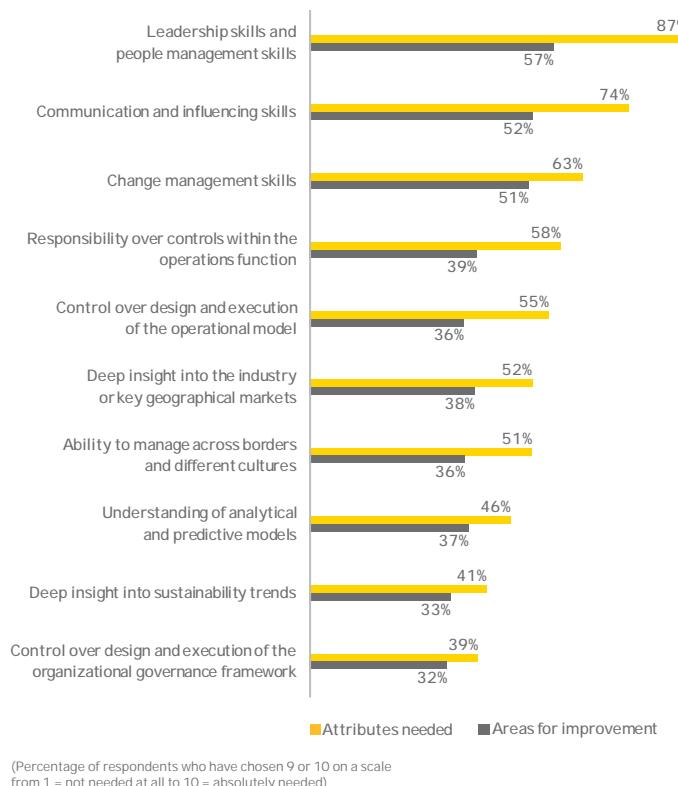
Indeed, COOs who are too operationally focused will not impress those who are charged with succession-planning. In their dealings with the board, aspiring CEOs must, therefore, do all they can to demonstrate that they have a broad commercial understanding and can contribute to strategic discussions. "If you start attending management meetings just to tell the committee what your area is all about, then you are done," says Darya-Varia Laboratoria Vice President Director Charles Robert Davis. "But if you are there to listen to what the others are doing, ask questions and learn from them, then you will be taken more seriously. The person who succeeds the most has a healthy balance of being able to reason, learn well and adapt to different situations."

### Leadership needed

By taking a look at any job advertisement for a COO, it quickly becomes apparent how few candidates are truly up to the job. Just one recent example asks the prospective candidate to take responsibility for strategic planning, governance and legal matters, staff management, administration and finances, facilities and IT, among other aspects. On top of these functional skills, such roles typically ask for strong leadership qualities, as well team-building and mentoring skills. Given all this, it is hardly surprising if it is difficult for companies to recruit and retain the right caliber of operations professional.

Much of the challenge in finding the right people comes not from identifying people with the necessary mix of technical competencies, but rather in their ability to lead. As the business transformation owner and the key individual tasked with the definition and implementation of strategy, the COO must be able to manage and inspire people at the highest level. When asked about the key attributes that they needed to help them perform at their best, it is the softer skills – leadership, people management and communication – that top the list. But these are also the characteristics that many COOs admit are in constant need of improvement.

**Chart 11: attributes or skills for a COO to best perform in the role**



COOs must simultaneously manage upwards, in their relationship with the CEO, and downwards in their dealings with direct reports and the broader workforce. This “sandwich position,” a challenge for most C-suite leaders, requires them to possess a rare combination of people management skills, which require tact and diplomacy, together with the ability to influence and tailor management styles to suit different audiences. “You need to be able to translate what’s going on at a strategic level to people at different levels across the organization,” explains AXA Winterthur COO Daniel Bandle. “It’s essential to be convincing and to be able to communicate messages in a language that is adapted to the target audience.”

For COOs managing across multiple regions, this must include fitting in with widely diverging cultures. “You need to know how to communicate, persuade and influence in each of those cultures,” remarks Ernst & Young COO for the Asia Pacific region, Steven Phan. “This means adapting your leadership style and having a good understanding of how varying norms affect how you manage and motivate teams.”

Most COOs questioned for this report agree that authoritarian management styles will not succeed. Instead, there needs to be a combination of imposing views when necessary but relying on a more engaging approach for most of the time. “Managing people requires you to be quite inclusive in terms of wanting to make sure that people feel that their contribution is appreciated and valued,” says MedcoEnergi Internasional COO Frila Berlini Yaman. “At the same time, you need to make sure that people follow the requirements and directives they are being given. It’s often a balancing act between being clear in your expectations but also making sure that people don’t feel that you are killing their initiative and creative process.”

Darya-Varia Laboratoria’s Davis talks about the principle of “servant leadership,” whereby COOs focus their attention on the needs of their subordinates. “The COO should be there not to be served but to serve,” as he puts it. “If you create an environment in which people can thrive then your job becomes so much easier. Conversely, if I fail to inspire them then that doubles the challenges that I face.”

Yet at the same time, the best leaders know that they cannot please everyone. “You have to do what’s best for the company and for the greater good of the majority,” says Silvester Macho, CIO of Metro, the retail group. “There will always be a minority that disagree or dislike your decision and you have to accept that.”

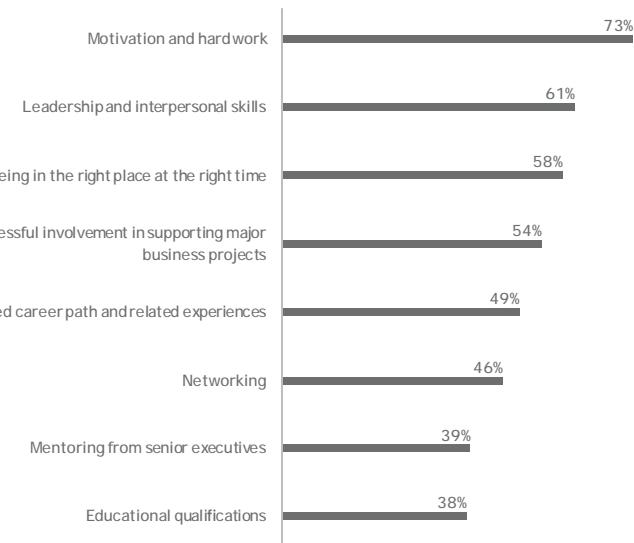
## Preparing for the position

Perhaps more than any other senior executive role, the COO pipeline relies on the nurturing of internal talent. In the case of the CEO, CFO or CIO, for example, it is easier for professionals to move from one company or sector to another. The skills of the COO are often less transferable, because the requirements depend on the company's specific situation and the dynamics of the management team. Among the survey respondents, just 3% say that they aspire to be COO of another company. Rather than highlighting their lack of ambition, this reflects the difficulties of transferring to the COO role in another company.

Nevertheless, Hennie Human, Performance Improvement Advisory Leader for Africa at Ernst & Young, believes that there are a number of situations in which COOs might move from one organization to another. "If you're a COO who has worked out how to extend the supply chain of a consumer products company into China, for example, then that experience and knowledge is very much transferable from one organization to another," he explains. "So there is a degree of experiential transferability, where COOs can bring specific knowledge to bear in different roles."

For operations professionals seeking to climb to the next rung of the career ladder, or for COOs hunting for a bigger job, several important themes stand out. First, there is no substitute for commitment. When asked about the factors that influenced a COO's career path, respondents point to motivation and hard work as the leading attributes. Second, leadership and interpersonal skills are critical. And further, aspiring COOs need a combination of very wide and very deep experience. They must do all they can to build a career in which they gain exposure to different parts of the business, and different regions of the world. Yet at the same time, they will build a strong reputation for themselves if they have experience of leading major projects, such as expansion into emerging markets, post merger integration, or a major restructuring. Although it is undoubtedly a challenging route to take, COOs and aspiring operations professionals will give themselves the best opportunities for career enhancement if they can secure such experience.

**Chart 12: attributes COOs strongly believe were needed for their career development**



(Percentage of respondents who have chosen 9 or 10 on a scale from 1 = not essential at all to 10 = absolutely essential)

Beyond the need to demonstrate such stability and commitment, a further question for the COO is what type of educational qualifications to obtain. Here, COOs interviewed for this report hold different views about the need for formal qualifications to perform the role. Inevitably, in sectors such as pharmaceuticals or aerospace, a relevant background in chemistry or engineering is important. However, in general, there is recognition of a broader business qualification to round off any technical expertise. As such, adding on an MBA or other specialist management qualification is becoming increasingly commonplace. But, as many interviewees stress, attitude is more important than qualifications. "It's much more about the mindset that you have," says AXA Winterthur COO Daniel Bandle. "You need to understand the business, and be both inspiring and credible. Those are qualities that you can't easily learn in the classroom."

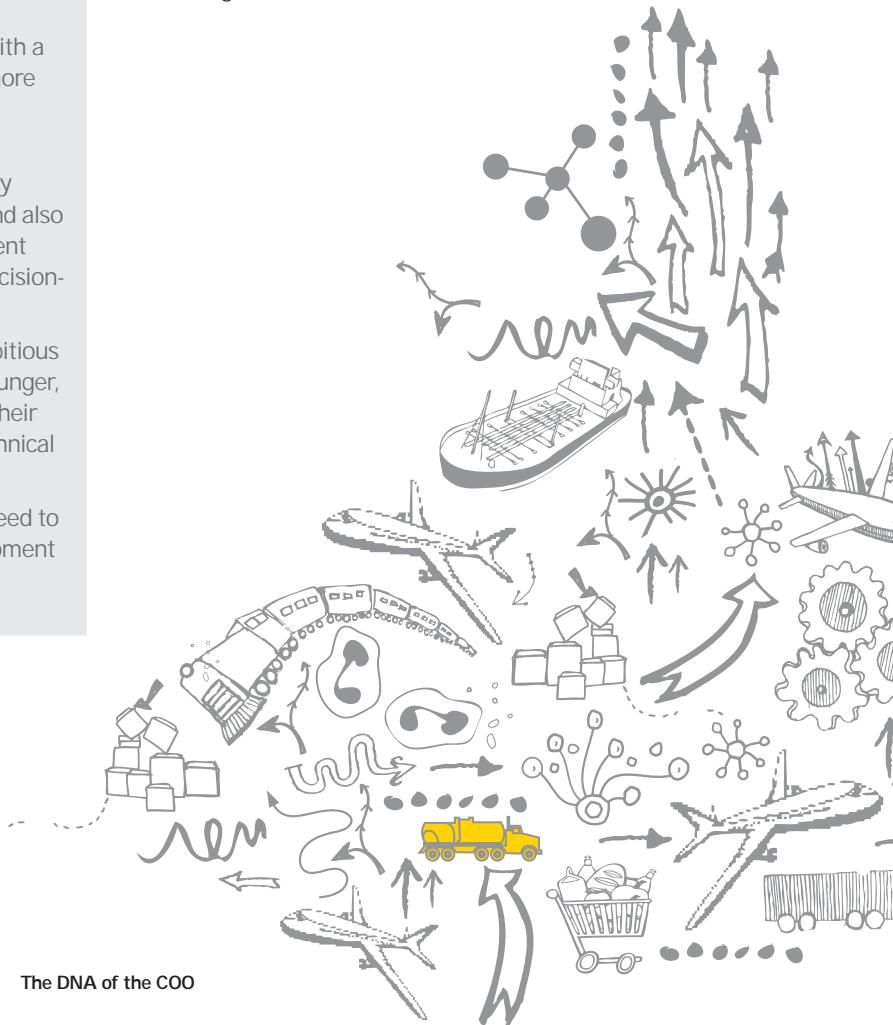
## From technical to commercial

Many COOs from yesteryear hailed from an engineering or other technical background. But a shift is underway. Many younger COOs now taking their place are more commercially aware and business-oriented than their predecessors. They typically have business qualifications, such as an MBA, rather than a technical background. So how do these up-and-coming types compare with their older, more technical colleagues? Our survey highlights a number of key differences:

- Respondents with a business degree have a broader focus than just operations, with 35% saying that they run operations concurrently with another responsibility, compared with 26% of those with a technical degree.
- Those with a business degree are also more likely to be a member of the board or executive committee.
- Business degree backgrounds are more common in oil and gas and consumer products, but less so in power and utilities, life sciences, or technology and industrial sectors.
- COOs with a business degree are younger than those with a technical background. A business qualification is also more common than a technical one among female COOs.
- Perhaps because they are slightly older and more experienced, COOs with a technical degree say that they create more value than those with business degrees, and also engage with the board across a broader range of different areas, including business performance and strategic decision-making.
- Those COOs with a business qualification are more ambitious for the CEO position. But, perhaps because they are younger, they also recognize that they have much to achieve in their current role. As such, nearly as many as those with technical qualifications intend to remain in the same role.
- Respondents with a technical degree stress that they need to improve their softer skills, including leadership, development and communication.

Of course, it is not only individuals that need to prepare for the COO role, but the wider organizations too. Companies need to create career paths that will incubate the next generation of COOs, particularly as many will seek to recruit for this role internally. This requires mobility, both internationally and across functions, so that aspiring COOs can gain involvement in other parts of the organization. "You have to be able to look beyond where you are now and be willing to take on cross-functional roles or assignments that can expose you to other facets of the business," says Darya-Varia Laboratoria Vice President Director Charles Robert Davis. "You have to be curious enough to want to understand other parts of the business."

However, while mobility and breadth of experience are important, one executive sounds a note of caution. In the view of Russian Post COO Denis Chuiko: "Although an individual who holds only one post for his career has too narrow a focus, a job-hopping candidate probably lacks thoroughness, consistency and the necessary grasp on methodology. The danger is that, when plans don't work out, he or she is likely to lose their nerve, call it a day and move on to something new."



## The first 100 days as COO

From working with our clients, and from research conducted for this report, we believe that there are some critical areas to address in the first 100 days in order to make the most impact:

### **Expect the unexpected**

The role you signed up for might not be the one that was sold at interview. You may find that the reality of the issues facing you is of a different magnitude and nature than that described. There will be a long to-do list of pressing problems and challenges. This is particularly true if the role has been recruited for the first time or has been established to solve a particular set of business problems. As such, it is important to do your due diligence to understand the function of the role and begin to identify the key issues that you have inherited.

### **Ask the obvious questions**

You should take the time to understand the role and the nature of the challenges ahead. A new appointee who seeks to make too many changes early on is sure to make mistakes. It is far more valuable to get to know the business and to travel around to different locations, meeting as many people as possible. It is only by amassing a deep knowledge of the business that you can understand where to act, and how your decisions might impact different functions and regions.

### **Be ready to move**

The speed with which you need to make decisions will depend on the nature of the appointment you have come into. If operations are in crisis mode, there will be an expectation that significant changes will be made early on. By contrast, operations that are already running well can be a prompt that the business is looking for the COO to uncover the “next big thing” to deliver.

### **Go for lunch**

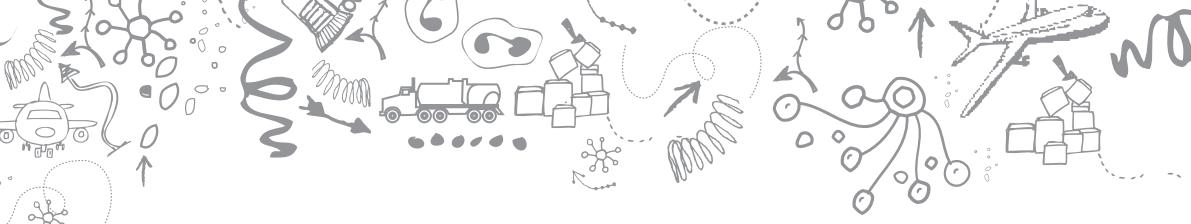
Prepare to network. You will need to be a “people person” who can develop a wide range of different relationships quickly. The most important of all is with the CEO, and this will naturally consume a large proportion of time. But do not neglect other members of the management team: start to build strong relationships with the heads of finance, IT, sales and marketing and HR, to name but a few. All will have a direct bearing on your role at some point in time. For COOs at large multinationals, international travel is essential. Spend time with country managers and other senior executives in as many locations as possible. Given that the first 100 days can make new appointees feel exposed, it may be worthwhile to identify a mentor who can guide you and act as an independent consultant.

### **Work out who has “got your back”**

Spend time up front in understanding your team’s issues, responsibilities and competencies. Identify who you can rely on to support you with the detail so that you can focus on the bigger picture.

### **Make your mark**

It is imperative that you put your individual stamp on the strategy of the organization, not least to reclaim some of the spotlight from more prominent executives. The extent to which you will be able to do this will depend to some degree on the relationships and dynamics of the broader management team. It will also vary according to the specific role that you have been appointed to fulfill. Either way, by showing a willingness not only to implement strategy but also to shape it, you will have a more prominent position in top-table discussions.



# Time to claim the spotlight

As if the job of the COO were not hard enough, it also lacks external guidance and support. There are few in-depth studies on the nature of the job, almost no magazines or journals targeting the COO, and few specifically relevant conferences to attend. For too long, COOs have simply flown under the radar of management thinking and writing.

There are reasons for this low profile, of course. The huge diversity of the role and the extent to which it varies between organizations and industries makes it challenging to pin down and examine. The responsibilities of the COO are often – but by no means exclusively – inward-looking. This means that they are rarely called upon to comment in the media or speak at analyst presentations, which is another difficulty they face, in terms of getting airtime for their issues and worries.

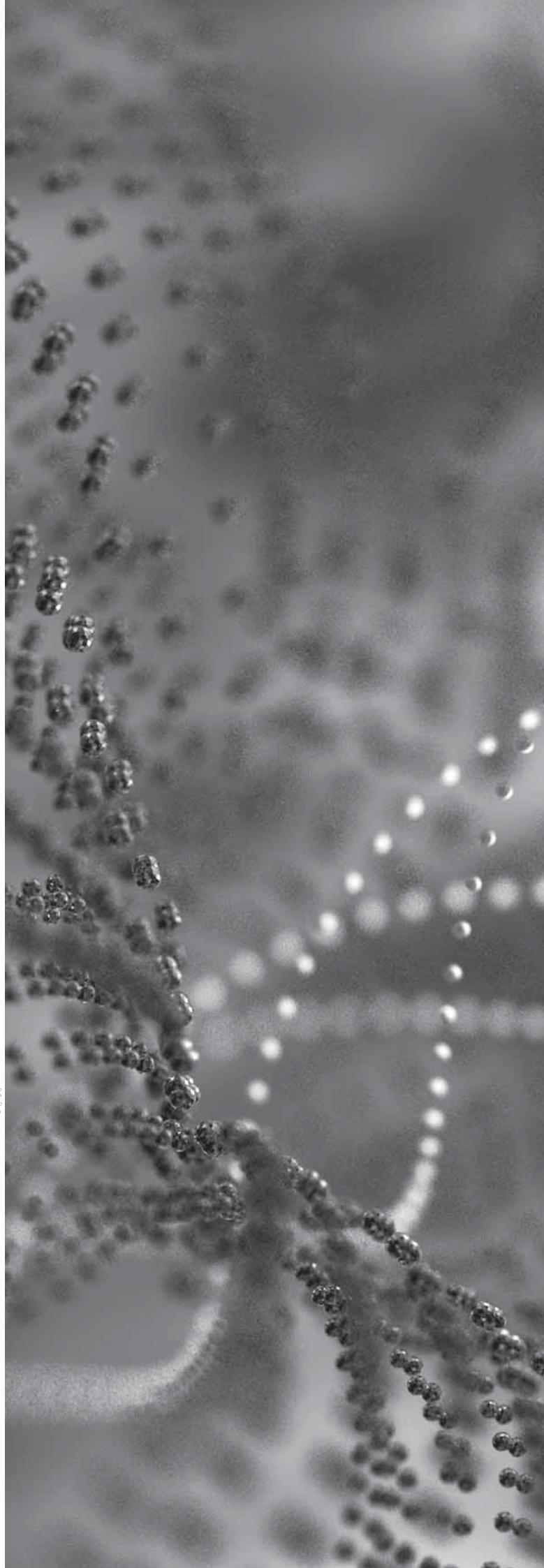
But several trends are now causing the status quo to be challenged. Operational excellence has become a key source of competitive advantage for many businesses. The tough economic environment demands a relentless focus on the smooth running of the business, a task ideally suited to the strengths of the COO.

Not that this is easy. Demand volatility, soaring commodity prices and the divergence between rapid-growth and developed markets require a high degree of flexibility, agility and efficiency from corporate operations. Achieving this when responsibility for operations is scattered across multiple functions and regions can be highly challenging. The COO brings coordination to these efforts, along with the ability to spot interdependencies and opportunities for rationalization.

Nevertheless, while the focus on operational excellence should never be downplayed, COOs have to combine these skills with a set of more forward-looking capabilities. For CEOs needing to find breathing space to focus on selling the wider vision, the COO can play a more central role in defining and implementing strategy and becoming the owner of business transformation. Perhaps more than any other executive, COOs have the power to change the organization. And, as companies look to an uncertain future, this is a skill that will remain in high demand.



Perhaps more than any other executive, COOs have the power to change the organization.



# Demographics

## A unique community

Our survey of 306 senior operational professionals and a further 23 in-depth interviews was drawn from a broad group of COOs and other C-suite members, representing countries across Africa, America, Asia, Australia, Europe and the Middle East.

In addition, we also surveyed 43 C-suite executives who were not from within the operations function, to gain their perspectives on the role of the COO.

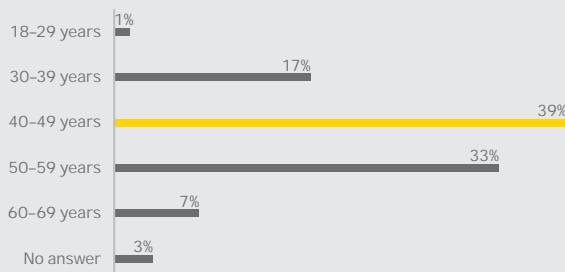
The following charts show the characteristics of the COOs and those of the companies that both the COOs and the other C-suite respondents represent.

## Surveyed COOs

### Gender



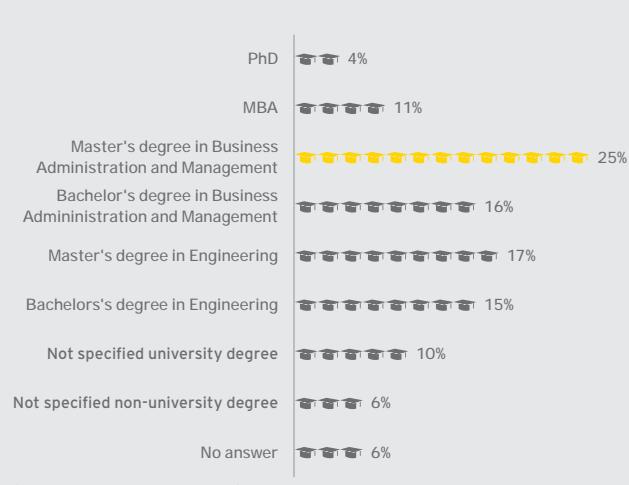
### Age



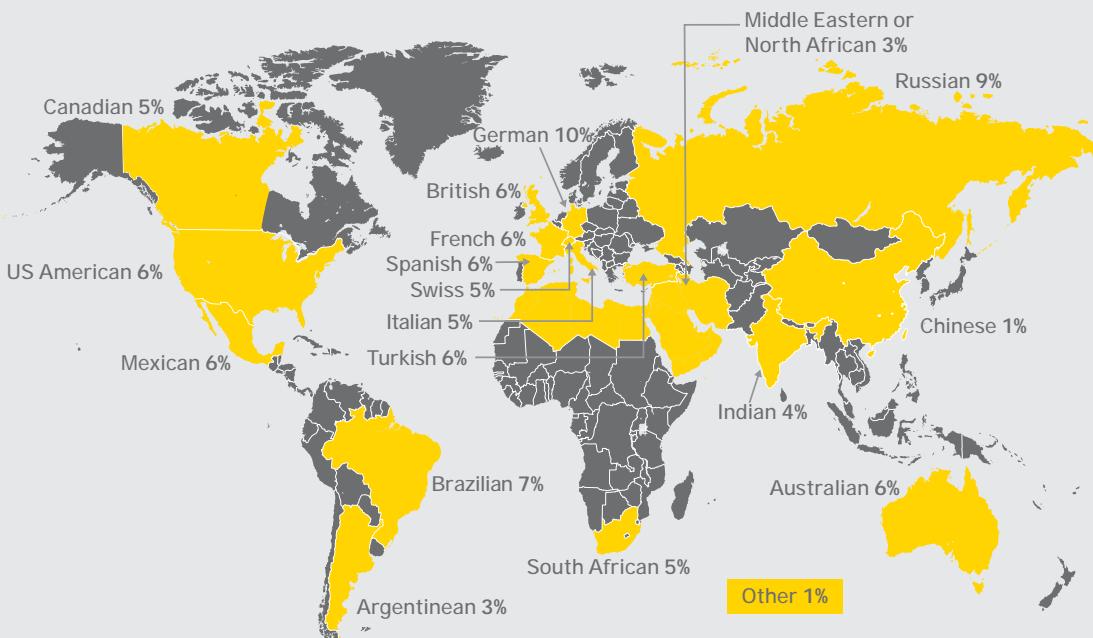
## Job title



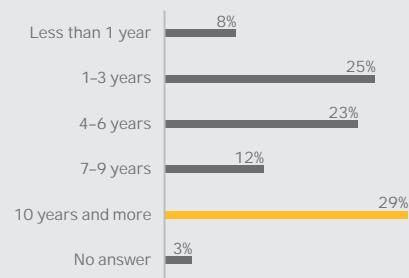
## Highest qualification



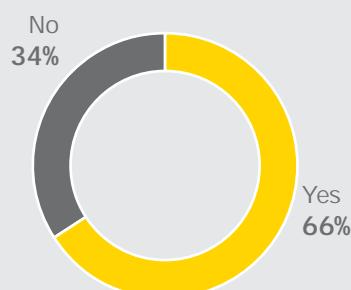
## Nationality



## Time in current role

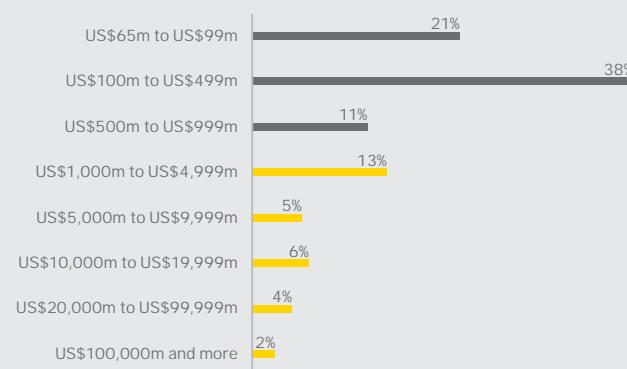


## Board membership

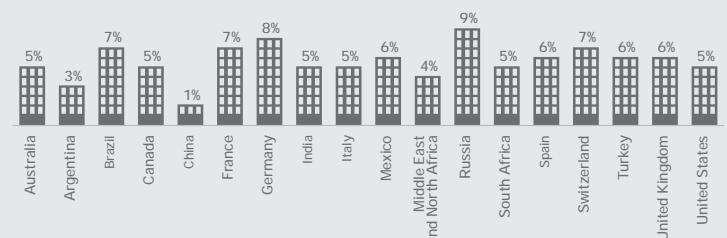


## Company of COOs and C-suite

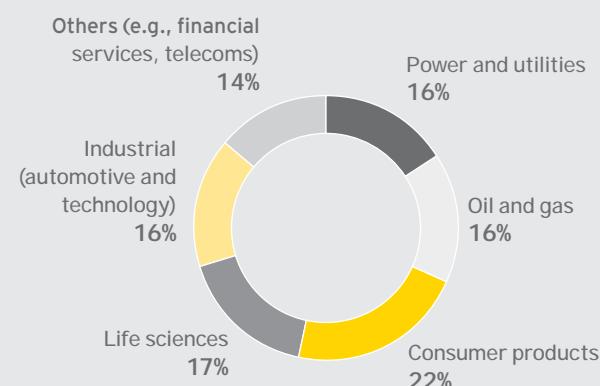
Global annual turnover



Location of headquarter



Sector

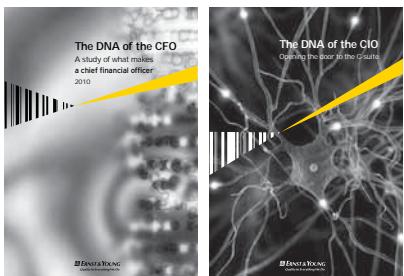


Worldwide number of employees



*The DNA of the COO* is the first of Ernst & Young's insights into the role of the COO and what defines this unique group of operational leaders. Our ongoing program will address aspects of personal interest to COOs as they seek to develop themselves and their teams, and learn from others within their community.

For further information, please visit [www.ey.com/dna-coo](http://www.ey.com/dna-coo), speak to your Ernst & Young contact, or send an email to [coo@ey.com](mailto:coo@ey.com).



This study is part of a series, which includes *The DNA of the CFO* and *The DNA of the CIO* reports that offer guidance for senior finance and IT leaders respectively.

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