



## Who Needs a COO?

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With chief operating officer positions becoming rarer all the time, companies are relying on CFOs for a lot more than keeping score.

When [Starbucks](#) announced on Tuesday that it was eliminating its chief operating officer position, it became the latest member of an ever-growing club. And as COOs slowly fade from the C-suite, CFOs are stepping in to fill the gap, assuming more responsibility for areas that redound to the bottom line.

CFOs are gaining a higher profile in their organizations as a result, along with, apparently, more compensation. But the downside is more pressure — more hours in the day required to accomplish more tasks, and more blame when profits fail to meet expectations or just fail altogether.

"Over time, it's become more critical for organizations to have financial input on business decision-making," said Tom Kolder, president of recruiting firm Crist|Kolder Associates, which specializes in C-suite searches. "They need to have a finance leader who is more than just a scorekeeper, who is a key partner to the CEO."

"But as CFOs take on more intensive business activities like operations or strategy," Kolder added, "they become more culpable if things go wrong. You're no longer in a support function; you're on the front lines, accountable for the good and bad."

According to Crist|Kolder's latest Volatility Report, issued late last year, on the movement of CEOs, COOs, and CFOs at top U.S. public companies, the prevalence of COOs is headed downward and is now at its lowest level in at least a decade. Among the 548 companies that have been part of either the Fortune 500 or the S&P 500 since 1995, there were 227 COOs in 2006 compared with a high of 255 in 1999, an 11 percent decrease.

Kolder said concurrent trends for both CEOs and CFOs to be more involved in operational details squeeze COOs. "When you have the combination of those two elements," he said, "the need for a COO goes away."

Jonathan Schiff, founder of the Finance Development and Training Institute, an alliance of 15 global companies dedicated to deepening the bench strength of their finance organizations, attributed the decline of COOs in large part to Wall Street's demand for a single strong leader at the company helm.

"Wall Street rewards companies that have clarity in their stories," said Schiff, who is also an accounting professor at Fairleigh Dickinson University. "But when there's both a CEO and COO, there's less clarity about who's running the show. Accountability is at the core here."

Even at many companies with COOs, the position seems more CEO-in-waiting than a career goal in itself. While slightly less than half of Fortune 500 companies with CEOs age 58 or older employ COOs, the percentage increases as CEOs age, to 58 percent for companies with CEOs 62 or older, according to the Crist|Kolder's report. (Just over one-third of Fortune 500 companies have CEOs who are 58 or older.)

Kolder explained that an heir-apparent to a chief executive might be given the COO title until taking over as CEO. "We see a significant number of cases in which a COO seems specifically in place to satisfy career development," he said. "When that person moves up, the COO position is not necessarily backfilled."

A study released last month by Robert Half Management Resources, which provides companies with temporary finance executives, ranked the different components of CFOs' expanding role as COOs gradually disappear.

Of 1,400 CFOs surveyed throughout the United States, the largest percentage of respondents, 25 percent, said a greater focus on increasing profitability represents the biggest change in the CFO role over the past five years. Second was increased interaction with other departments, at 20 percent; third, an expanded leadership or management role, 17 percent; fourth, more strategic planning, 15 percent; and fifth, increased focus on corporate governance initiatives, 12 percent.

"CFOs are more involved in discussions that don't involve their typical bean-counter role — discussions like build versus buy, offshore operations, and political impacts," said Paul McDonald, executive director of Robert Half Management Resources.

In part, board members seek counsel more often from their CFOs because of compliance issues, McDonald said. "Board members have more responsibility post-Sarbanes-Oxley," he explained, "so they draw CFOs into more kinds of discussions."

Still, he said, "Any boardroom discussion can be taken from the operational perspective to finance and accounting and produce a positive impact as it relates to the bottom line."

Another Robert Half survey of CFOs, released in December, shows that CFOs place a high value on non-traditional skills for people they hire for their own organizations. In answer to the question, "Would you be willing to hire someone with fewer technical skills if the candidate had stronger soft skills, such as communication and interpersonal abilities?" 53 percent answered, "Yes." Only 39 percent said they would not. (Eight percent didn't know or refused to answer.)

In adjusting to the new C-suite reality, CFOs must acquire a whole array of new skills to successfully manage areas that have recently come under their direct responsibility, according to a 25-year finance veteran, Andrew Hyde, CFO of privately held broadband provider Speakeasy. At various times in his career, Hyde has been responsible for traditionally non-finance functions like human resources and reviewing legal contracts.

In human resources, for example, Hyde said CFOs must learn not just the soft skills of human interaction, but their subtleties as well. "It's not just about being nice to people when you have to terminate them," he said. "It's also about when it's appropriate to celebrate success. That's not on the CPA exam."

When it comes to reviewing contracts, he said most CFOs probably possess the analytical skills to scrutinize contract terms, but they typically are not prepared to understand what's missing from a contract.

"Many smaller companies will have a contracts administrator but no legal counsel inside the company," Hyde said. "So do you want to pay a high-powered, outside counsel \$500 an hour to review what seems like an innocuous contract? I've taken a contract to the lawyers a time or two, and they'll say that a whole area is missing. It's on-the-job training."

And in an area now commonly under CFO supervision, information technology, CFOs must keep up with the rapid changes in technology to ensure their organizations maintain the most cost-effective IT systems.

"Thousands of people are coming at you with solutions that they claim will save tons of money," Hyde said. "Figuring out what's real and what's not takes a lot of time. It is an incredible challenge."

Far-sighted — and, typically, resource-rich — companies implement programs to train finance professionals as well-rounded business people. "Great companies groom finance people to be business leaders," said Schiff.

Many of the companies Schiff works with not only target promising future finance leaders in their ranks for rotation into operational areas, they also offer mentoring and outside coaching.

More companies also demand that future finance leaders rotate into their international operations as they generate an increasing share of revenue. "Companies that once did 10 percent of their business outside of the United States are now doing 40 to 50 percent, and it's going to continue in that direction," Schiff said.

While it's unclear how much more compensation CFOs are receiving as a result of their expanded responsibilities, Kolder said there has been a positive impact.

"As CFOs become more strategic and operational and become more of a change-agent in their organizations, either supplementing or replacing COOs, their compensation goes up commensurately," he said.

Hyde also acknowledged rising compensation for CFOs but said, perhaps not surprisingly, "The numbers are not moving as fast as they should for the extra time and burden of responsibility across broader areas."

And while Hyde said those added responsibilities increase his job satisfaction ("It makes things more interesting"), he also enjoys having a COO at his present company.

"I've had more time to do CFO things like risk management," he said, "because I don't have to think about things like office space. I'm delighted."