

Where Did All The COOs Go?

Market-savvy advice to COOs: It's time to look for a new abbreviation.

By Joseph Guinto

The best corporate trend spotters tell us chief operating officers are going the way of the blunt-nosed leopard lizard. The COO is endangered, they say, just like that reptile. Extinction looms.

But Rick Riess, COO of Auberge Resorts — whose Mill Valley, California, headquarters is just a few hours from the blunt-nose's native habitat — isn't feeling all that threatened. "I think you really need the COO role in our business," says Riess, whose business is running high-end resort properties. "There are a million details to this industry, and you need someone experienced in operations to handle those details."

This may be wishful thinking on Riess' part. While the COO species does still exist in some industries such as hotels, recent studies suggest that many other industries are shedding COOs like lizards shed skin — except without growing it back.

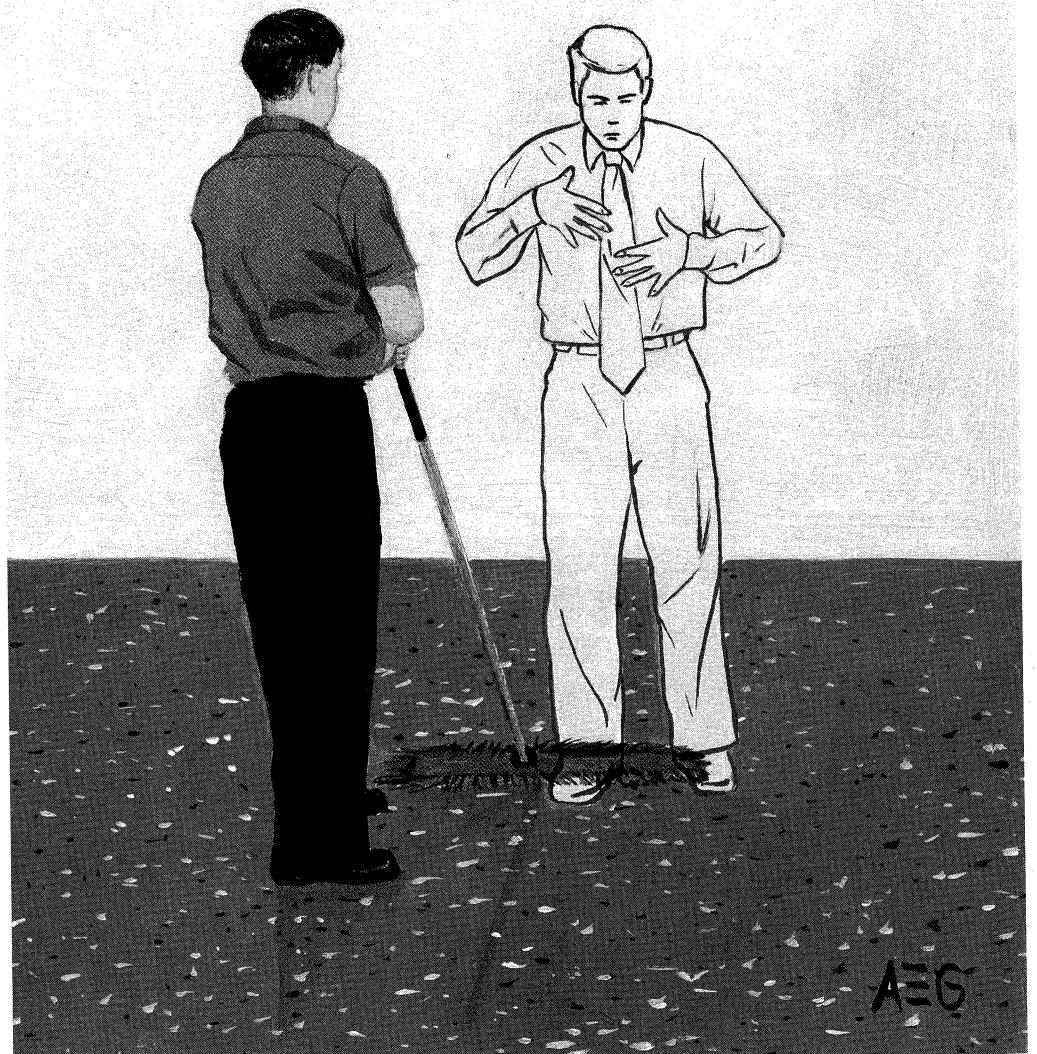
Crist Associates, an executive-recruiting firm based in Hinsdale, Illinois, found that the ranks of top-level COOs employed by S&P 500 and Fortune 500 firms have dipped by 20 percent in the last few years. And a further COO cascade seems likely. In 1996, fewer than half of the companies who promoted their COO to the chief executive officer's post replaced the COO within 24 months, Crist found. But in 2002, just 17 percent did so. The other 83 percent — in-

cluding big, influential companies like General Motors Corp., IBM Corp., The Home Depot Inc., and The Procter & Gamble Co. — gave the COO's responsibilities for overseeing day-to-day internal operations to someone else. In most cases, that someone else was the chief executive officer.

"There isn't the same desire for a number-two

person to handle internal operations while the CEO focuses on external matters," says Scott Simmons, vice president of Crist Associates. "Investors now want the chief executive closer to the business."

It might take some work to remember why investors would have ever wanted anything else. But think about it. Back in the boom years of the



1990s, many companies were expected to post huge growth, 20 percent and more annually. To do that, CEOs pursued rapid expansion and stayed focused on mergers, acquisitions, plant expansion, and the like. Someone had to run the company in the meantime, and that job often fell to a COO. Post-boom, investor expectations for growth are more restrained, freeing many CEOs to again focus on growing their companies from within.

Business types also believe that what they call "post-Sarbox issues" may be at work. The landmark Sarbanes-Oxley financial reform legislation passed in 2002 requires companies to be more straightforward with their accounting, and insists that executives take personal responsibility for the veracity of their bookkeeping. That's made chief financial officers more important than ever in U.S. companies. "CEOs today want a better feel for what's going on inside their companies, and, because of Sarbanes-Oxley, you have stronger CFOs who want to take a bigger role in the company," says Michael Sirkin, a partner and practicing attorney with Proskauer Rose in New York. "The COO is getting squeezed from both ends."

Sure is. Researchers at Penn State and Texas A&M who studied 400 major U.S. companies over a 10-year period recently found a 22 percent decline in the number of firms employing COOs. They also found that the bottom line on COOs is that they're bad for the bottom line: Companies with a CEO and COO posted a return on assets that was one full percentage point less than companies who lacked a COO.

"The CEO/COO duo separates formulation from implementation," says Penn State's Donald Hambrick, a coauthor of the study. "I think everybody is wising up to that."

Well, okay, maybe not everybody. While megaliths like Wal-Mart Stores Inc. and General Motors Corp. no longer employ COOs, other giants — albeit troubled ones like The Walt Disney Co., Sun Microsystems, and Circuit City Store, Inc. — do. And COOs remain common among cyber companies, where constantly changing technology draws the CEO's attention away from day-to-day details. Dell Inc., eBay Inc., and EDS Corp., to name a few,

all employ COOs. There are also firms who still anoint a COO just to establish a clear line of succession to the CEO role. Take McDonald's Corp., for instance. When CEO James Cantalupo died of a heart attack in April, the company's board took only hours to promote COO Charlie Bell — long thought to be in line for the CEO post — to succeed Cantalupo.

But in the more bad news category, these days, many boards of directors prefer not to get locked into succession plans centered on COOs. Flatter corporate hierarchies "present more opportunities for more individuals to rise to the CEO position," says Chuck Pappalardo, managing director of Trilogy Venture Search, a corporate recruiter in California. "Boards now want to evaluate a greater number of candidates."

So what's a COO to do? Well, it isn't as if COOs across corporate America are being fired for being COOs. It's just that companies seem to be less fond of appointing new COOs when executives vacate that post. And, indeed, just because a company doesn't have a COO doesn't mean that it doesn't have someone operating as one. Day-to-day oversight

duties may go to someone with the title of Executive Vice President, or to someone with a newfangled appellation like "Chief Customer Officer." "People define the COO role massively differently from company to company," says Robert Herbold, who served as Microsoft Corp.'s chief operating officer from 1994 to 2001, working under a certain multibillionaire he likes to call "Bill G." (Herbold was replaced by Rick Belluzzo, who lasted 13 months, during which time he helped lead a reorg of Microsoft's business units — and wrote himself out of a job in the process.) "Companies just take the individuals they have on hand or that they're going to hire, and they create jobs around them to take the best advantage of their skills. It's wrong to worry about whether a certain title is in vogue."

He could be right. Still, if they start referring to COOs as blunt-nosed leopard lizards, well, then it's definitely time to worry. **AW**

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