

# Putting the COO

# inside professional services

Unlike any other position at a professional services firm, the chief operating officer is simultaneously the practice's most visible follower and the key individual responsible for leading the execution of strategy. According to **Nathan Bennett** and **Stephen Miles**, by better understanding this striking contradiction in responsibilities, partnerships and COOs can more effectively lead their practices.

**L**aw practices, accounting firms, medical practice groups, investment partnerships, and managerial consulting groups are often structured with a CEO and a COO. These positions are staffed such that the CEO is a practicing member of the profession – typically elected by the partnership for a finite term of service. The COO, by comparison, is primarily qualified based on business acumen and his or her tenure may or may not survive several “generations” of CEO leaders. Granted, there is variation from this description, but this is the predominant model. From this arrangement come a host of challenges for COOs that are unique to professional service firms.

## COOs at work

Before trying further to understand this uniqueness in professional service firms, it is useful to describe some of the foundational elements of the COO role.

Investigations of the role have identified four critical success factors for COOs. Briefly stated, success begins by building and communicating a business case that supports the *timing* and *motivation* for the creation of the role. Then, success depends on finding the *person who represents the best fit* to the opportunity. Finally, the last of the factors regards execution – no matter how “right” the COO is for the job, without sufficient *on-going support* he is unlikely to add value. When all four of these steps are done properly the position can be an enormous asset to both the CEO and the company. →

→ As one might guess, the determination of what is “right” in each case is a complex process because of the interdependencies among the four success factors. The right person depends in part on the reason and the timing, and so on.

Digging a bit deeper, there are seven reasons for the creation of a COO role – each could conceivably be defended using business rationale. Depending on the circumstances faced by the focal business, the COO role could be justified for one or more of these reasons, to:

- Lead the *daily execution* of company strategy, usually in an operationally intensive industry
- Train as the *heir apparent* to the current CEO
- Allow the company to *retain executive talent* that other companies may be trying to lure away
- *Complement* the CEO by bringing to the pair skills that the CEO either lacks, has not yet sufficiently developed, or prefers not to exhibit
- Serve as a *co-leader*; to be a very close partner with the CEO
- Be a *change-agent* charged with championing a specific piece of work, such as developing internal systems and operational discipline, orchestrating M&A, entering a new country-market, and so on
- Serve as a *mentor* to an inexperienced or developing CEO.

### Right person, nice fit

To the extent that the CEO and the board are able to elaborate a compelling case as to how the COO position properly addresses one or more of the reasons above, then the “*right reason*” criterion has been met. For example, after several years at the helm of Quest Diagnostics, Ken Freeman built a case to bring on a COO both to prepare for a chance at the top job and to help manage the acquisition of SmithKline Beecham’s testing business. Freeman apparently did this successfully; Quest has performed well and his choice for COO, Surya Mohapatra succeeded him as CEO in 2004.

As to the question of the right person and the fit with the opportunity, the firm’s leadership needs to consider three things. *First, is the COO candidate a fit with the CEO/managing partner?* The two executives will need to quickly form a trusting relationship and develop productive communication norms. Though liking is probably not a requirement, it is paramount that an unwavering respect exists between the two. *Second, is the COO candidate a fit with the demands of the position?* Here, the key is their ability to accomplish the business reason behind the position’s creation. As examples, Mort Topfer’s ability to mentor Michael Dell during the growth of his company and Bob Herbold’s ability to bring internal discipline to the Microsoft culture

serve well. *Finally, is the position a fit with the aspirations of the COO?* Where the COO has an interest in one day serving as CEO, issues surrounding the likely timing of such an opportunity are critical. Similarly, if the board is quite certain the COO incumbent has no upward mobility at the company, that needs to be clearly communicated at the outset, as well. To the extent that the CEO and board have found a candidate that “fits” the CEO, the needs of the business, and the opportunity, then the “*right person*” criterion has been met. Several high profile executives such as Steve Heyer (Coca-Cola) and John Brock (Cadbury Schweppes) have left companies after concluding the top job would not be theirs – at least not on their schedule. Both Heyer (Starwood Hotels) and Brock (Coca-Cola Enterprises) now are CEOs.

Next, the timing of the position’s creation needs to be considered. One interesting thing about COO positions is that they are used strategically and may not be filled for periods of time – companies announce that the COO is leaving or is being promoted to CEO and the “duties will be assumed by other members of top management”. In many companies the job exists, disappears for a while, then returns – as has been the case at Microsoft. This suggests that timing – both with regard to the company’s needs and the CEO’s needs – must be a consideration. As to the company’s needs, we refer back to the discussion of the business justification for the COO position. As to the CEO’s needs, two points are critical. First, the CEO has to be ready to share power with the COO. In some ways, this becomes a psychological drama – can the CEO share power without suffering an ego-blow? This is playing out at Intel where Paul Ottelini, the CEO and former COO, has not yet announced a new COO. Second, a number of CEOs have indicated that the COO role becomes important *after* they have really developed an understanding of the company. Carol Bartz at Autodesk and Ed Zander at Motorola are two examples of CEOs who have talked about the importance of the CEO really learning the business before creating an extra “layer” of management between them and it. Finally, as noted above, there is an issue of timing that the COO candidate should be considering, too. If they aspire to the CEO role, they need to have a sense of how much “runway” the chief executive has left and whether or not that coincides with both the time they need to prepare while serving as heir and the time they are willing to wait. To the extent that the CEO and the Board have addressed and resolved these issues, the *timing* criterion has been met.

### Chief communication officer

Finally, once the right person has been found, the

business case and the timing well articulated and widely-accepted, the issue of ongoing support requires attention. In our conversations with COOs, a number of important sorts of support are regularly pointed to as critical. The most critical form of support that the COO needs is frequent, open, honest communication. The chief reason communication is so critical is that it helps assure the CEO and COO stay aligned on matters of importance to the company's success. Wherever fault lines emerge, some will seek to exploit them. Should a wedge be driven between the two, the resulting confusion hinders the ability of others to execute on the company's plans and may lead to derailment of one or both of the CEO/COO.

The second key element of support COOs mentioned is the importance of an ongoing agreement about where the CEO and COO jobs begin and end. The boundaries between the positions are likely to be evolutionary – that is not a problem as long as there is good communication among the executives and as long as each backs up the other with regard to where decisions get made and their roles are communicated to the broader organisation to ensure clarity is maintained.

The third issue – the “back door” problem – refers to the desires of top executives who once accustomed to serving the CEO as a direct report now find themselves reporting to the COO. COOs need to become comfortable with allowing executives access to the CEO – to do otherwise would simply be foolish. At the same time, where the CEO understands the concerns being brought forward “belong” to the COO, the CEO needs to

professional service firms become clear. Three points are particularly critical to successful firm leadership:

- *the business case for the COO position*
- *how COOs survive leadership changes*
- *how COOs learn to use influence to “lead from behind”.*

Earlier, seven business reasons that supported the creation of a COO role were outlined. Reviewing that list in the context of most professional service firms suggests that only a few of them are likely to be realistic. In these firms, the predominant rationale behind the role is that of executor: The COO is there to make sure the firm is effectively run. There is evidence to suggest that the COO as mentor role has some presence – particularly to the extent that a COO who has survived a leadership transition plays an important role in the on-boarding of the new CEO/managing partner. Similarly, there is evidence that an occasional “change agent” motivation is present – typically when there has been a tumultuous leadership succession and the firm requires a “new start” of one form or another. That said there is scant evidence of the COO position being a place to develop an heir apparent or to retain executive talent.

All this is consistent with the view that in these firms the COO position is one where the incumbent has “hit ceiling” – career progressions from this job forward will require moving to a similar position with a bigger and/or more prestigious firm or perhaps to a firm in a more desirable location. This creates a management challenge: how can a firm continue to

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respect that and guide the executive back to the COO for the decision. Failure to do so blatantly erodes the authority of the COO and can lead to derailment.

Finally, great COOs understand that their job involves working for the success of another – the CEO. To the extent that the CEO is willing to share the spotlight, the COO is supported in that others – including members of the board – recognise the quality of the COOs contributions and their dedication to the company. In all, to the extent that the Board and CEO continually provide *support*, that criterion is met.

### Professional service COOs

With this background, elements of the COO role that are unique to the way the position operates in

develop and motivate their COO when the prospects for personal and economic growth may really lie elsewhere? There are two choices here – each is based in accepting the reality that at some point the COO will outgrow the job. In one scenario, the partnership accepts this and manages the COO in a manner that is friendly to the opportunities that might one day arise: the spotlight is shared with the COO, challenges that stretch the incumbent are offered and efforts to ensure success are made. Ultimately, successes are celebrated publicly. In the other scenario, the COO is managed without much exposure to light and with an emphasis on the development of firm-specific skills that would decrease the incumbent's attractiveness to other employers. →

→ Of course, the irony here is that in managing the COO with an appreciation of the fact that they might leave, the partnership actually creates the sort of job that would entice them to stay while on the other hand the partnership concerned with “imprisoning” their COO is essentially helping them decide to leave. An example of this was described by Andrew Waitman, the managing partner at Celtic House Venture Partners, a VC firm which specialises in early stage investments in high technology companies in North America and the UK. In describing the way he partners with the COO, David Adderley, he said he encourages “David to go out to

detail is fascinating and important; when the managing partner has a corporate background, everything is a “deal” to be made . . . effective COOs understand these different styles and can adapt their approach to the job accordingly.”

There are cases in professional service firms where the COO does not survive a leadership change – usually this was because the COO ‘bet on the wrong horse’ in that they had, whether intentionally or not, become too closely associated with a losing candidate for the top job. Arguably, this points to the most critical thing for COOs to understand – successfully remaining in place across leaders is

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venture shows representing our firm . . . it provides him exposure, we know he makes a great impression, and it makes it clear to all that our firm has managerial depth – that we are more than just a collection of investors.”

The second unique component to the COO position in professional service firms is the fact that often the COO serves through multiple administrations. This would be quite rare in other business sectors. What is much more common is for the position to be eliminated while the CEO “learns” the company. For example, when John Brock became CEO at InBev he eliminated the COO position. Though he reported it was painful to have so many direct reports, he recognised that because he came in from outside the firm it was the best way to really understand the dynamics underneath the company’s operations. He acknowledged that the arrangement was not sustainable over time; moving forward it would again become the right time for a COO. In contrast, it is difficult to imagine a new leader in a professional service firm deciding to simply eradicate the COO position in order that they could then “learn the business.”

When the COO wants to survive multiple administrations, there needs to be an ability to adapt to the personality and tendencies of the various CEOs. As Karen MacKay, a principal with Edge International, notes from her experience with law firms in the UK and around the world, “It is fascinating to watch COOs adjust their styles based on the practice background of the new managing partner. When the managing partner’s background is in litigation, they want to ‘win’ every interaction; when the managing partner is a tax attorney, each

most directly the result of creating confidence among the partners that your loyalty is to the group – not only to particular members of the group. As MacKay said, “to the extent that partners see the COO as loyal to the firm, they can trust them to act in the best interests of the firm.” The second key to success across leadership transitions concerns the way the COO is portrayed by each incumbent – this can be summarised as the degree to which the COO has the spotlight. When a COO has demonstrated unequivocally that he is both competent and loyal, it would border on foolishness for a new CEO to advocate a change of COO. Frankly, given the concerns many CEOs have for maintaining their own professional practice, it would seem unlikely they would make a move to fix an element of the operation that was not broken. This point was echoed by Jeff Scherb, the COO/CTO of the Europe Region for Heidrick and Struggles, who said “the work I do has become associated with my position . . . no new boss is likely to see a reason to want to take it on . . . each of my new bosses has been content to let me continue with my plans I think because I have been able to articulate the vision and strategy well. I have tried to elaborate these things in a big enough way that they are clearly going to last longer than the service of any one CEO or regional managing partner.”

The final difference in the circumstance of the COO in a professional service firm concerns the way he uses power and influence. Individual organisational power is generally acknowledged to come from five sources: the position, the ability to reward, the ability to punish, being seen as expert, and from being liked. The COO in a typical

organisation arguably has access to all of these sources of power. Of course, there is a great deal of power vested in the number two position. Further, to the extent that the COO has used his position to forge a trusting relationship with the CEO, even greater levels of power become available. Typically, the COO is in a position to administer both reward and punishment either directly or indirectly through his influence on the CEO over others. In many cases, the COO will be someone who is viewed as expert – it is his savvy regarding the industry and operations that earned him the position in the first place. Of course, some but not all in COO positions will be able to access power that is the result of others' liking. Because these COOs have access to all these sources of power, they have many more options available in their efforts to influence others. As is true in many cases, the more tools you have at your disposal, the better off you are.

In comparison, COOs in professional service firms have fewer of these tools. Most quickly seen is the difference in expert power – COOs are generally not lawyers, doctors, certified financial analysts, deal partners, management consultants, and so on. Similarly, they are likely not in the same position to use the promise of reward or the threat of punishment to influence many of the firm's members. Instead, they are limited to a reliance on their demonstrated expertise about operations and building tight relationships with those they need to influence. Karen MacKay explained that from her experience the effective COOs were "those who can lead from 'behind' – they understand how to plant an idea with one or more key partners, how to nurture it so that it grows, and how – as it grows – to begin to allow those key partners to view the idea as their own. Some ideas need to begin with those who are influential in a specific practice, some ideas need to begin with senior partners, still other ideas need to begin with women attorneys. Great COOs recognise that and know where to plant these ideas so that they do come in to being." That said it

is true that the COO will have access to power to the degree that they have strong relationships with the CEO. Jeff Scherb added "people know Kevin [Kelly; the regional president] and I are complete partners in this... he and I both trust each other completely, so there is never an issue about one of us questioning the other's decisions. Everyone recognises this and accepts either of us as decision makers."

COOs in professional service firms have an important job – no amount of professional talent can overcome a situation where the firm can't execute its strategy and serve its clients needs in an efficient manner. For that reason it is important that the COO role itself be thoughtfully considered and well-executed. The first issue – that the position be created for the right reason and at the right time – is relatively straightforward in these firms. Given the talents and proclivities of the firm's professionals, their interest and ability in attending to the daily operations of the firm are likely low – the COO is a solution to this challenge. Next, there is the matter of the right person for the position. This is interesting because it is quite possible that the COO's tenure will span that of multiple CEOs. The key to success for the COO is the ability to be savvy about adapting to each new leader's style, to be effective at planting and nurturing ideas strategically among those with the power to influence other professionals, and to develop and demonstrate a loyalty to the partnership rather than to one or a few individual partners.

Finally, the question of the right support to create a successful COO must be addressed. Of course, the basics – clear communication, involvement in decision making, backing decisions made by the COO – need to be present. Beyond that, firms interested in retaining their COO need to be deliberate about shining the spotlight on them and about providing opportunities for growth within the confines of the firm. When shaped effectively with the steps outlined above, the COO role can bring to any professional services firm unprecedented value. ■

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