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# The **New** New Deal

President Barack Obama and his team top our third annual  
*Directorship* 100, the most influential people in the boardroom  
and corporate governance community. 22



# In Practice



## Where Have All the COOs Gone?

**The chief operating officer job increasingly remains vacant until a CEO successor is appointed.**

**By Jay R. Galbraith**

In July, Robert McDonald, the chief operating officer of Procter & Gamble received the ultimate promotion to chief executive, replacing the legendary A.G. Lafley, who retained his position as chairman. The COO post was left vacant. In this regard, P&G is very much a sign of the times—yet another example of the disappearing COO.

In a report issued earlier this year, executive search firm Crist/Kolder confirmed this trend, indicating that employment of COOs declined 20 percent in the last 10 years, with the largest decline in 2008. Among *Fortune* 500 companies, there are currently just 205 COOs in the 543 companies that have been on the list during the past 10 years. While the role has not completely vanished, occupants are steadily relinquishing their C-suite seats—and not necessarily voluntarily.

Why? There are three primary reasons for the shrinking number of COOs: First, CEOs are reluctant to create the role. In fact, it is now almost exclusively a “CEO in waiting” temporary position. That is, once a successor is chosen, this person takes on the COO job prior to moving on to the CEO role. It is only when a successor is chosen that CEOs are comfortable with having a “number two.” Second, there are a number of alternative structures that fulfill the purpose of the COO role. These appear to be more to the liking of CEOs and acceptable to boards. Finally, a number of companies are separating the role of chairman from the CEO. They are not creating a COO, in order to reduce the redundancy of having a chairman, a CEO, and a COO.

My own experience has been one of dealing with the reluctance of the CEO to appoint a COO. Since

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2000, I have worked with 25 CEOs to redesign their top structures. Not one of these companies decided to create a COO role. In each case, the CEO preferred not to have a COO as the second-in-command because they felt appointing a COO was the same as designating a successor before they were ready. Some were quite explicit and said they were too young to become a lame duck. Others did not want a filter between themselves and the businesses; they still wanted to influence activities taking place in the business units. However, when the time came to select a successor, they were all quite comfortable placing the successor in the COO role.

### The Structural Divide

Instead of appointing a COO, many companies are seeking alternative structures that effectively divide the executive work of managing the whole corporation. One alternative is to use various forms of an Office of the CEO as a substitute for a COO. General Electric used such an office during the Jack Welch years. When Reginald Jones and the board chose Welch as chairman and CEO, they also chose two vice chairmen who could work well with Welch. Essentially, they chose a team to run the company. Welch continued the model throughout his tenure as various VCs came and went.

First, they were either contemporaries of or older than Welch. They were not successor candidates, but could become the CEO if something went wrong, minimizing potential competition among the members of the Office. Second, it was clear to everyone that the business heads, not the vice chairmen, were the succession candidates. And third, the skills of the VCs reflected GE's priorities at the time and filled in Welch's flat spots. For example, Paolo Fresco, an Italian, became a VC when GE implemented a globalization initiative. Welch had little international experience. When GE Capital became half of GE's revenues, Dennis Dammerman, the CFO, became a VC to help him manage the financial-services businesses. Robert Wright became a VC when NBC-Universal became a big part of GE. So, at all times, the Office was a team that reflected

GE's strategic priorities and compensated for Welch's lack of experience in specific areas.

The businesses and the functions reported to the Office. Some fluid arrangements were used: The human resources and CFO functions usually reported to the CEO. At one point, Welch would choose three or four businesses that were undergoing a transformation and they would report directly to him. The VCs would divide up the other businesses and functions. Then, in 18 to 24 months, Welch would choose another three or four businesses. Toward the end of his tenure, when Welch was busy choosing his successor, all of the businesses reported

### CEOs arguably have more responsibilities and pressures than ever before. So why isn't the role of the COO considered a critical appointment?

directly to him. As none of the VCs were candidates because all of the active candidates were running businesses, the VCs remained as active advisors. When Jeffrey Immelt was chosen as the successor, then and only then was there a COO.

### The Separation of Chairman and CEO

When companies separate the roles of chairman and CEO, the COO role falls to the wayside. The P&G case is a good example, as are the recent changes at General Motors and Chrysler. Today, about 40 percent of large American companies are separating these roles. If there is a tandem of the chairman and the CEO, the company may not need another one in the form of the CEO and the COO. When a successor is selected, however, it is likely a COO role will be used as a "CEO in waiting" seat.

Yet, while the independence of board leadership allows CEOs to focus more on running the business while the chairman can focus on duties like leading the board and managing CEO succession, it still

### Executive Summary

■ The number of chief operating officers at Fortune 500 companies has declined dramatically recently.

■ Increasingly, CEOs are concerned that naming a COO indicates that the individual will be the CEO's successor.

■ Instead, some companies are using alternative structures, such as the creation of an office of the CEO, or they are appointing vice chairmen.



remains that CEOs arguably have more responsibilities and pressures than ever before, particularly as today's economy continues its struggle to right itself. So then, why isn't the role of the COO considered a critical appointment?

A few other questions also arise: is this reluctance new or have CEOs always resisted appointing a COO? It seems strange that in the 25 out of 25 of my past reorganizations, there is not one company that opted to appoint a COO. I would have expected at least four or five. What explains this change? In a few cases, mostly European companies, there was a sepa-

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**Every CEO, no matter how good he or she is, has limitations. The task of leading the enterprise is increasingly beyond the capabilities of even the most exceptional individuals.**

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ration of the CEO and chairman roles. Although not explicitly mentioned by the CEOs, there could be a need to maintain control. After all, the CEO role is experiencing at or near record levels of volatility. These CEOs likely want to maintain or increase control to help avoid being the next to lose their job.

#### **Permanent or Provisional?**

Every CEO, no matter how good he or she is, has limitations. Welch, one of the most lauded CEOs in history, is a case in point. Additionally, the task of leading the enterprise is increasingly beyond the capabilities of even the most exceptional individuals. Today, enterprise leadership is a team sport.

The COO position and some alternative structures are ideally suited to meet these two requirements. As Nathan Bennett and Stephen A. Miles point out in their book, *Riding Shotgun*, there is no job description for the COO; it is always customized to complement the CEO. For example, take a biotech firm where the CEO is the founder and the chief scientist. He or she may be a good scientist and visionary, but not necessarily a good manager. All of the scientific functions, like research, development,

and the chief medical officer, report to him or her. All of the business functions (sales, marketing, supply chain, finance, and others) report to a COO. Also, the COO is not automatically regarded as the successor to the CEO. He or she is a candidate along with the heads of research, development, and international. The CEO is not a lame duck; there is still a need for a COO role, but there are alternatives such as the various configurations of an Office of the CEO.

The next question is whether the tandem of the chairman and CEO will make the COO role redundant. In many cases, I believe it depends on where the chairman comes from. If the chairman is the former CEO, as in the P&G case, yes, the COO role becomes redundant for now. They have merely transformed the CEO-COO tandem into a chairman-CEO tandem. There are four candidates reporting to the new CEO, and it is too soon to appoint a COO unless that person can be part of an office configuration with no guarantee of being the successor. Yet, it is not a redundant, but more of a strategic move if the chairman comes from the outside such as in the example of General Motors.

In these cases, the chairman represents the investors and manages the board. The role is more of a counterweight to the CEO's power and authority on the board. When the chairmen act as more of a counterbalance, they are less of a partner. A COO, or other alternative structure to complement the CEO, is still perfectly appropriate.

CEO reluctance, structural alternatives, and the separation of chairman and CEO roles are likely to persist, influencing the trend of diminishing COOs. And as these factors continue, so will the debate about whether this is a positive phenomenon for today's complex organizations or one that lacks strategic foresight. ■

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Jay R. Galbraith is president and founder of Galbraith Management Consultants, a consulting firm that specializes in solving strategy and organizational design challenges.

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