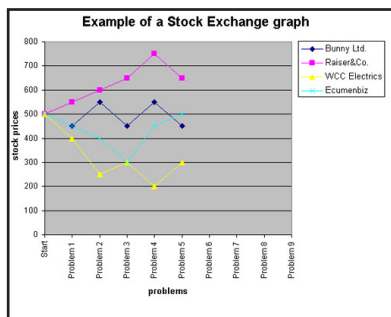


IN THE COO WORLD, THE FUTURE IS 'THE SAME FOR LESS'

In the main, Chief Operating Officers in financial services have earned more strategic roles than their equivalents in other sectors. However, the banking crisis has created ambiguity about the economic future. As a result, for all executives, the right strategy is difficult to define. COOs find themselves in an especially difficult place; they have become more important, but there's less money to deliver on the Chief Executive's expectations. Norman Broadbent is immersed in the financial services market we hope the trends we are spotting in the COO world prove of value to those wrestling with discovering the best way forward.



At times last autumn, every day seemed to bring news that led us to question whether the global financial infrastructure would survive. There have been many differing

views about the potential depth, shape (e.g. V, U, 'W written by an increasingly tired man' or, even, L) and duration of the economic crisis. Nearly 12 months on, the only agreement appears to be that, due to the uncertain future, executive boards have faced more challenges in setting decisive strategy than ever before.

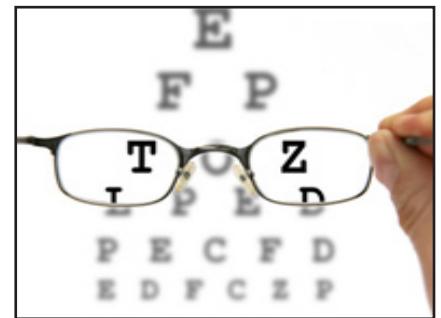
A McKinsey survey at the beginning of the year highlighted that more than 80% of executives said their '09 strategic planning process had been more near-term focused than ever before. Clearly, this heightens the risk of overlooking longer-term trends or failing to evaluate the effectiveness of pre-existing strategies. But, in today's financial services world, it is crucial to preserve cash; easiest to achieve through tighter capital spending governance.

A more recent McKinsey article states that, while attention has been focused on capital adequacy, the only way for a bank to be strong enough to stand on its own feet is by its ability to earn profits. With interest

rates at their lowest ever, and with losses in consumer and commercial lending not yet accounted for, driving profit is harder than ever

It is essential that banks reduce operating expenses, and do so systematically. Interestingly, all 19 stress tested banks in the US actually increased annual operating costs from '06 – by an average of 32%. As a result, most COOs can assume that the key mission for the rest of '09 is to deliver 'the same for less'.

However, with uncertainty about medium-term strategy, many COOs are not yet sure for 'how much less'. One thing they do know is that waiting



for clarity is not an option. For the COO, 'doing nothing' heightens the risk of being seen as part of the problem, rather than part of the solution. So, the majority of COOs are facing the uncomfortable challenge of needing to deliver change, while not being sure how operational service should look when change is delivered.

In the manufacturing-based operating model that has become popular in UK consumer financial services, the COO's team is likely to include heads of IT, change, customer services, collections & recoveries and strategic sourcing. In all likelihood, this team was built when the COO's performance was measured by the ability to 'just do more' in response to market growth, increased competition, greater product range, demand to increase cross-selling etc.

The market is very different today, and it is an uncommon COO who has no concerns, in these more efficiency-focused times, over the 'fitness' of their current leadership team. Therefore, it is not surprising that many COOs are looking to make changes to their top teams; not wholesale changes, but changes nevertheless.

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“one might assume that the chief executives of the world’s largest companies lost their jobs in dramatic numbers in 2008... turnover actually declined in North America and Europe, the regions hit first and hardest by the economic downturn.”

It may be counterintuitive but Booz reported recently that, in Europe, the rate of Chief Executive churn reduced by nearly 2% during ‘08. It is true that, since the start of the credit crisis, relatively few new

Chief Information Officers (CIOs)

The CIO’s seat at the decision-making table has been won deservedly. Delivering ‘the same for less’ is as important for the CIO as it is for the COO. A survey of financial services CIOs by Forrester Research towards the end of last year highlighted that nearly half had already cut their IT budgets. Driving productivity from a reduced headcount, squeezing suppliers and stopping in-flight projects are among the few tools to reduce expenditure in the short-term.

Chief Executives have been appointed in UK financial services - and then, typically, only where fundamental business failure was evident. In the same way, relatively few COO roles have become open – and, then, mainly as a result of M&A activity or through the promotion of the previous incumbent.

It is inevitable that outsourcing and offshoring will play an increasing role in reducing IT expenditure in the longer-term. CIOs need stronger commercial skills than ever. For example, outsourcing deals might be struck where suppliers make a large up-front payment in return for higher margins over the duration of the contract. The CIO’s leadership challenge will increase significantly, as some of their team will be transferred to a company they didn’t elect to join. Internal competition for rationed IT resources will become fiercer, and the CIO’s diplomacy, network-building and demand management skills will be tested like never before.



Our view is that, in financial services, the market is unlikely to see significant COO churn until Q4 ‘09 at the earliest. Whether or not the much-heralded green shoots are flourishing, Chief Executives should have more confidence to set strategic direction by the autumn and, also, to have decided which of their leadership team can make the journey with them. In the main, there will be two key drivers for this churn. Firstly, the Chief Executive loses confidence that their COO is in control and begins to see them as part of the problem. Secondly, it is decided that a new streamlined operating model, creating a shared services capability, needs be implemented and fresh blood from outside needs to be introduced to deliver the change.

In the post-dotcom downturn, some CIOs were replaced by ‘general managers’ seconded in from other leadership roles – especially in life and pensions. We do not expect this to be repeated; it would be regressive.

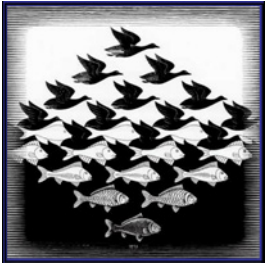
Business Transformation

Regardless of why the COO roles emerge, firms will demand transformational leaders who can operate as fully-fledged members of the Executive and have the potential to move into a P&L management role in the future. There are high stakes to play for, and we expect a mark-to-market stance to be taken with respect to compensation. If fact, if we assume that bonuses in financial services will be more moderate in the future than in pre-credit crunch times, we may even see base salary inflation.

Over the last 3-4 years, the head of each divisional operation has tended to take responsibility for ‘changing what they run’ and, frequently, the CIO has stepped-up to take the strategic lead on change methodology. In the last downturn, a significant market emerged for ‘pure’ Programme Directors (change professionals with no ‘day job’) with responsibility to consolidate processes across business divisions and build business transformation capabilities along the lines of internal consultancy.

Let us now reflect on some of the key roles that report into the COO.

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We believe that demand for people with a track-record of delivering disciplined change will rise over the next 18 months. But the supply will not. There are relatively few people who can lead complex enterprisewide change and possess the influencing skills

needed to facilitate agreement between stakeholders with mutually exclusive objectives.

If one adheres to the view that, for the foreseeable future, change is the only constant, then there is every reason why a senior Programme Director (as long as they possess previous operational leadership experience) should be seen as a viable succession plan for the COO.

Customer Services & Experience

With increasing competition in financial services, customer retention has become an increasingly strategic goal. Traditionally, the financial services sector has been poor at managing the end-to-end experience of customers – especially when compared with, say, retailers. Due to the financial crisis, the average customer's sentiment towards their bank has changed from 'not liking them much' to actively dislike.

Financial services companies are placing more focus than ever on building strong relationships with profitable customers – and not just to create a stronger platform for cross-selling. All financial services companies need to become more 'joined-up' in the way they handle customers and we can expect to see the creation of higher-level Customer Experience Officer-type roles.



We also expect to see a broader adoption of metrics such as Bain's Net Promoter Score, which measures how likely it is that a customer would recommend the company to a friend. In the future, world-class customer services professionals will be characterised by the fact that they see metrics-based systems as operational tools used to improve customer experience, rather than for abstract market research.

Collections & Recoveries

McKinsey suggests that the difference between common and best practice performance in collections, recoveries and workouts can be as much as 15% percent of losses. Therefore, in a profit challenged world, it is essential to invest in the development of collections & recoveries capability.



The market for people with collections & recoveries leadership experience is finite. The better performers' transformational leadership capabilities and their ability to influence across the executive mean they stand out from the rest. In the main, these top performers are locked-in by their current employer or, alternatively, have moved recently into their current role.

Of course, it is pre-requisite to search for people performing in similar roles, but this should be only part of the potential solution. For example, it might be sensible to view collections as a specialist form of out-bound sales. Targeting people from a broader market, together with defining a potent career proposition, increases the size of the candidate pool and, thereby, can lift the quality threshold and improve the choices available.

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Strategic Sourcing



Strategic sourcing is not a modern synonym for procurement, but the two are closely aligned. Sourcing is focused on the purchase of services delivered by outsourcers. A strategic sourcing professional will be involved early in the outsourcing life cycle – for

example, by deciding what to continue to do in-house and what services to buy in. They will remain with projects into the live operation and, in all likelihood, will hold performance responsibility for the end-to-end delivery of the service, rather than be just accountable for contract management.

Over the next few years, a broader range of services will be outsourced, and it is crucial that the quality of services provided is optimised. More senior strategic sourcing roles will be created than ever before.

Conclusion

Regardless of functional area, there will be a higher degree of uniqueness about each role created. For roles that have not existed previously, it is unlikely that suitable internal experience exists. However, there may also be no-one externally who has performed in an identical role either. Under these circumstances, COOs will recognise that they are looking for someone who ‘can do the job’ rather than ‘has done the job’. Redeploying the best internal talent to new challenges might be a viable option. If the COO wants to bring in new talent, they must ensure that their search partner has sufficient market-knowledge, lateral-thinking ability and determination to cover the market comprehensively and, therefore, be able to surface and introduce people who will make a long-term, positive difference to their business.

About the author

For over 25 years, Norman Broadbent has been a leading name in executive search, interim management and leadership consultancy services. We advise blue-chip clients, across all sectors, with the full range of executive & non-executive roles.



Conrad advises banks & insurance firms on finding world-class talent for the full range of executive roles. He also advises companies across all consumer-oriented sectors on attracting COOs and CIOs, as well as functional leaders in transformation, customer services, collections and strategic sourcing.

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