Out of the shadows
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Traditionally working behind the scenes, the Chief operating officers of power and utilities (P&U) companies are emerging into the spotlight. Those who take their complex role in a more strategic direction can help improve their organization’s performance and shape its future, Steve McCabe, Jeff Miller and Raghu Raj reports.

An increasingly complex regulatory environment, pressures on costs, the expansion of rapid-growth markets and the need to upgrade infrastructure mean today’s utilities must be highly flexible and agile yet retain a sharp focus on cost containment and efficiency. Overcoming these challenges brings the role of Chief Operating Officer (COO) to the fore. COOs with the right skills and the willingness to reinvent their roles can be the ideal candidates to lead their organizations through this difficult environment and drive the vision for future growth.

A broader role

Large and complex utilities are even more reliant on the skills of strong operational leaders. We find it is common in the power and utilities industry for two or more people to hold positions at levels of influence equivalent to that of the COO but with a variety of titles: operating company president, functional president and so on. Despite the split into different functions, these executives manage operations that are easily as large and complex as those of an individual COO within other businesses. Thus, those who hold COO roles within P&U companies tend to have broader, and perhaps more significant, roles than peers in other industries. Not only are they responsible for capital expenditure budgets that run into the multiple billions of euros or dollars, they must also guard against operational failure, ensure the safety and reliability of supply and manage relationships with regulators and other authorities. Furthermore, they often have to operate across multiple jurisdictions, juggling local and regional concerns, while maintaining one consistent direction for their company.

Changing perceptions

While P&U COOs face many challenges, the demanding environment in which they operate also presents opportunities to add value across a broad range of areas. But they must first change perceptions about their role, proving they can go beyond “keeping the lights on” to influence corporate strategy and further broaden their role. Key areas in which the COO of a P&U companies can add value include:

- Driving cost optimization: as revenues are squeezed by sluggish growth rates and decreasing allowed returns on equity (ROE), COOs have opportunities around improving operational efficiency and maximizing achieved ROEs.
- Bringing a unique perspective: as overseers of their particular arms of the businesses, P&U operational leaders can break down functional and geographical silos, and identify ways of driving efficiencies and adopting leading practices across their organizations. This is particularly important for companies that span multiple jurisdictions.
Leading transformation: many utilities are undergoing large business transformations in response to changing market conditions, increasing regulations and new technology. While COOs are already involved in these transformation projects, their mandate now is to shift from a wholly operational perspective to a more strategic one. At its core, this involves turning an abstract corporate strategy into a daily working reality, deploying specific frameworks and processes that can deliver on the strategic objectives set for each part of the organization.

Collaborative approach: COOs must create bonds with board members and, in this regard, our research shows that P&U operational leaders are well ahead of their colleagues in other industries. The CEO-COO relationship is particularly critical and must be based on trust, regular communication, a shared vision, the right personality fit and the willingness to challenge each other on business concerns (and in private).

Room to improve
In our experience working with our P&U clients, we see many COOs making valued contributions to the performance of their organizations. But we also notice some areas that could be enhanced if the potential of this role is to be fully realized:

- **Mastering the financials:** perhaps the biggest issue for COOs is a need to develop greater financial acumen. Many ascend through the operational ranks of the organization with limited direct financial experience. A better understanding of finance fundamentals could enable COOs both to improve their performance and to heighten their visibility within the boardroom.

- **Taking calculated risks:** considering customer and regulator expectations around safety and reliability in the power and utilities sector, it is not surprising that utility COOs have developed a reputation for risk avoidance. But while utilities must deliver on these expectations, their COOs need to develop a different mindset when it comes to driving cultural and process change.

- **Developing the soft skills:** as the business transformation owner and key individual tasked with defining and implementing strategy, the COO must be able to manage and inspire people at the highest level. When we asked COOs about the key attributes they needed to help them perform at their best, it was the softer skills – leadership, people management and communication – that topped the list. The most effective COOs we see are strong leaders who motivate their teams to participate actively in the strategic journey they have planned. They also demonstrate personal charisma and the ability to “sell” their vision to the board.

Seize the spotlight
Perhaps more than any other executives, COOs have the power to shape their organization. Operational excellence has become a key source of competitive advantage, and today’s tough economic environment demands a relentless focus on the smooth running of the business – a task ideally suited to the strengths of the COO. But those operational skills should be combined with a set of forward-looking capabilities, as well as the ability to lead, establish a vision and motivate.

For further information, please visit www.ey.com/dna-coo, speak to your EY contact, or send an email to coo@ey.com.

How we can help
We work with many COOs, supporting them as they capitalize on their own unique opportunities and deliver their transformation goals. Our report, DNA of the COO: Time to claim the spotlight, is the first of EY’s insights into the role of the COO and what defines this unique group of operational leaders. This ongoing program will address aspects of personal interest to COOs as they seek to develop themselves and their teams and learn from others within their communities.
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