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FINANCIAL SERVICES PRACTICE

Fintech COOs: Redefining the role for a new industry

More and more fintechs are seeking COOs, but figuring out who's right for the role is harder than it seems.

Considering whether and how to hire a chief operating officer (COO) has been a major topic of conversation for young, high-growth fintech companies, especially in the past three years as many began to scale up. Although the COO role has decreased in prevalence at the largest US companies, it has historically played a big part in fast-growing tech companies when they find they need to complement the skills of the founder/CEO to help build scale.

But the idiosyncratic features of the fintech sector—compliance and regulatory issues; competition and collaboration with incumbent players; complexity in scaling quickly in an industry that is highly regulated and requires cooperation among firms; and a relatively small talent pool with experience in tackling these issues—make hiring a COO uniquely challenging.

Most fintech companies have little experience in searching for a COO. Consequently, they are eager to learn from what their peers have been doing. To take a fresh, objective view, we looked at the Global Fintech 100 start-up and growth fintech companies around the world, observed whether they had a COO, and, if so, what lessons we could learn from them as well as from our own experience.

We found that, although functional skills matter, cultural alignment and fast-growth experience are crucial to success. Companies should first define their specific needs, including gaps in their founder/CEO's skill set and the skill sets of the rest of the executive team, and then pursue several rigorous steps to assess potential COOs. Fintechs that follow this systematic approach will improve their chances of ensuring a good fit with the eventual COO and their firm's long-term operational health.

Who the fintech COOs are and what they're doing

Sixty percent of the fintech companies we looked at had COOs. These COOs had, on average, 21 years of work experience and 3 years of tenure in their current jobs. They had diverse backgrounds, but the most prevalent routes to the role were business development, sales, and strategy. A startlingly low 25% had been a COO in a previous company, even though prior COO experience is typically seen as important in other industries. In addition, we found the following:

- There was no relationship between the size of the company and whether it had a COO. One might assume the larger the company, the more likely it would have a COO, but that was not the case—some early-stage firms had a COO and some late-stage ones did not. Most often, what we saw instead was that fintechs brought a COO on board at whatever stage they identified a specific scaling issue outside the founder/CEO's skill set.

- The size of the company that COOs left to join a fintech varied: just under half of the COOs came from other start-ups (49%); slightly more (51%) came from larger, established companies. The transition from an established company to a start-up can be particularly culturally fraught, which is one reason cultural compatibility is such an important element of COO fit.[1]

[1] For more on executives who make the transition, see David Boehmer, Elyssa Pedote, and Elliott Stixrud, "Can a leader from a large financial services firm thrive at an industry disrupter? How about the other way around?" August 22, 2018, heidrick.com.

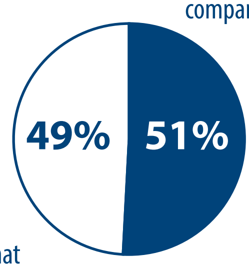
- A much greater proportion of COOs were female (32%) compared to the share of female fintech founders/CEOs (8%). This relatively high share of female COOs is about the same as in the US tech industry as a whole.

As for how fintechs are defining the position, our analysis showed that they most often employ a hybrid of traditional financial services and technology COO roles. In financial services, for example, the COO traditionally has focused more on operations, partnering with the revenue side to build and lead a business-enabling capacity. In the technology world, the COO has had much more of a go-to-market orientation, serving as a deputy to the founder/CEO, in addition to carrying out functional operational responsibilities. (As a result, this latter role in tech would, in financial services, often be called "president" rather than "COO.")

The fintech COO role is most commonly defined somewhere in the middle of these two traditional COO roles, depending strongly on the stage of growth of the firm and the founder/CEO's strengths and experience. Although we often see companies defining the COO role with more of a go-to-market leaning, responsibilities typically also call for strong general management and operational backgrounds.

60%

of the fintech companies we looked at had COOs



32%
of COOs were female compared to **8%** of female fintech founders/CEOs.

The COOs had, on average:

21 years
work experience

3 years
tenure at current job

Only 25%
had been a COO in a previous company

Most frequent functional experience

Business development

Sales

Strategy

This often complements a more product-oriented founder/CEO. When the founder/CEO is strong in sales and customer acquisition, however, the COO role tends to be more operationally focused, as in traditional financial services firms.

All that said, our experience suggests that the most important way fintechs define what they need in a COO is not by specific functional expertise but instead through a clear alignment with the founder/CEO on mission and culture. We find that similarities in conceptual thinking, creativity, and operational excellence are among the areas that matter. It's also important that a potential COO have an approach to decision making that syncs with that of the founder/CEO, even if they disagree on the answer to any specific question. Successful COOs must also have experience in companies that have had similar growth journeys—this increases the chances the prospective COO will understand the issues relating to clients, culture, organization, and talent that arise in the fast-growth period.

In the end, although specific functional expertise is important, time after time we see that overall alignment underlies success, which makes successful fintech COOs more different from each other than their peers in many other industries.

Understanding each fintech's unique requirements

Companies typically have COOs because consistent, reliable operations are crucial to long-term performance and growth. In established industries, there is usually a clear definition of how COOs work. But in the fintech sector, where there are fewer existing COOs and where cultural alignment is so important, fintechs that start by defining the role for their own unique situation benefit most from adding a COO. It's crucial to include a wide range of input from important stakeholders, such as investors, board members, the founder/CEO, and potentially other top executives.

Founders/CEOs typically care a lot about whether the candidate will complement their skill sets as well as mesh with the company culture. Investors and board members tend to emphasize what responsibilities the COO will own to help the company grow. Existing team members will want the candidate to embrace the company culture and mission, while helping to mentor and coach them.

Discussions exploring what the company needs in a COO are most beneficial, in our experience, when they also cover a range of other fundamental questions, some of which aren't comfortable for companies to ask—but all of which, left unanswered, can lead to misalignment later on:

- What exactly are the skills and qualities that are needed on the senior team to fill gaps and complement the founder/CEO and the rest of the team? For example, in a B2B firm, experience with enterprise sales may be the crucial element; in a consumer firm, experience building trust and communities could matter more; and in a fintech, a focus on lending relationships with the capital markets and funding could be crucial to the role.

- Should the incoming COO be a potential founder/CEO successor? And should succession even be part of the conversation, given that founders are often such a core part of their companies that it is hard to consider it before an eventual exit?

Key questions to ask about your potential COO

- What skills do we need to complement our founder/CEO and senior team?
- Does the candidate's approach to decision making align with our founder/CEO's?
- Does the candidate embrace our culture and mission?
- Should the candidate be a potential successor to our founder/CEO?
- How important is COO experience, compared with experience in relevant functions or markets?
- Are there particular companies that the founder/CEO or board find particularly powerful in a candidate's history, or that would be disqualifying?

- How important is prior COO experience or experience with founding another start-up, compared with senior experience in relevant functions or markets?
- Are there particular companies that the board and founder/CEO would find particularly powerful in a potential COO's career history or, on the other hand, disqualifying?

In the end, the board and the founder/CEO must define a set of clear criteria for relevant experience and expertise, leadership competencies, and culture factors that their COO must possess, for which the list to the left is just a starting point. It's crucial that this be specific to each company's situation, not a laundry list of qualities, and that the company can realistically expect to find such a person.

Finding the COO

Once a fintech knows what it wants in its COO, it may face another issue that has confronted other growth companies in tech: while the founder/CEO may have been working to build the company for years, many candidates may not know of it. That means that, although the founder/CEO and investors may believe the company has differentiating qualities, candidates may not recognize them.

Codifying what those qualities are, as well as being comfortable sharing financial data (under a nondisclosure agreement if needed), and involving investors and a prominent external advisor in discussions early on can make all the difference. It's more important for fintechs than for more established companies to be open to engaging with candidates who seem lukewarm about the position but who want to learn more about it; they may eventually grow more interested in the company.

Of course, another way around the problem of attracting candidates to the company is to promote from within. We believe that an internal promotion to COO can sometimes be the safest and least disruptive choice, but internal candidates often have large hurdles to overcome, most notably stakeholder perceptions that they may not have the experience to drive true change, since they are part of the existing team. Nonetheless, as part of their search for a COO, fintechs must ask whether there are internal candidates and, if so, what experience and expertise they lack and whether there's a way to fill those gaps.

Searching for a fintech COO: A case study

A rapidly growing B2B fintech undertook a search for a COO that it structured in three parts. In the design phase, the founder/CEO gathered trusted advisors, board members, and executives to review everything the company currently did and wanted to do in the future, as well as what his own strengths and relative weaknesses were and where a COO could particularly add value. They concluded they needed a COO from the technology industry (rather than financial services or fintech) because what they needed most was expertise in engineering-based cultures, strong go-to-market leadership experience in the technology industry, which was most aligned with the company and culture they were looking to build, and the experience of having built organizations at a scale similar to their aspirations.

In the second phase, the CEO met with about 15 COOs and CEOs who had hired for the position in similar-sized businesses that he respected in order to learn what had worked for them and what didn't. The CEO compiled this input and created an assessment scorecard (and thus search strategy). The scorecard offered clear prioritizations as well as areas where compromises on qualifications were possible. Phase three was the search itself, which took about four months to complete.

Looking back, what stood out in this search was the importance of the connection the fintech found between the CEO and the candidate, specifically related to how they assessed and worked through problems—which they uncovered by using a case-study model for assessment—and the things they were passionate about in life and work.

Board appointments, internal rotations, and outside mentoring and coaching are all tactics companies have used to help internal candidates build their skill sets. And even if a person is not promoted to COO, having provided such opportunities typically still helps companies retain skilled executives.

Finally, assessing someone for potential rather than proven experience is particularly challenging yet especially important for fintech COO roles. That's because of the unusual mix of qualities most companies are seeking and because prior COO work is infrequently a requirement. In our experience, fintechs have most often succeeded with a mix of carefully structured interviews rather than conversational ones, using case studies and working sessions as part of the evaluation process, and getting the views of current executives as well as outside advisers with broad experience (see sidebar, "Searching for a fintech COO: A case study").

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More and more fintech companies are adding COOs as they start to scale and reach levels of complexity that require substantial additional management and leadership skills as well as new expertise. But these positions are not easy to add successfully. Founders/ CEOs and investors create the best outcomes for their companies when they spend the time to define the role, including an honest assessment of the senior team's current skills and gaps, and then follow a rigorous process to find the mix of skills and cultural fit that will lead to lasting success in the role. ■

About the author

David Boehmer (dboehmer@heidrick.com) is a partner in Heidrick & Struggles' San Francisco office and a member of the Financial Services Practice.

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Leaders of Heidrick & Struggles' Financial Services Practice

Global	Jenni Hibbert Global Practice Managing Partner jhibbert@heidrick.com
Americas	Todd Taylor Regional Managing Partner ttaylor@heidrick.com
Asia Pacific and Middle East	Steven Greenberg Regional Managing Partner sgreenberg@heidrick.com

Leaders of Financial Technology Segment

Americas	Todd Taylor ttaylor@heidrick.com
Europe and Africa	Adam Vaughan avaughan@heidrick.com
Asia Pacific and Middle East	Frazer Wilson fwilson@heidrick.com

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