KORN FERRY Institute

Why CHROs really are CEOs

What CEOs should demand from chief human resources officers (CHROs), and human resources—and why they should empower them to do it.

Leaders of the talent agenda.

I recall the term "staff officer" from my service in the US Army. It was a term most officers dreaded. Staff time in the Pentagon or in a battalion meant that you were doing "administrative" work—not out leading troops. Historically, as important as chief financial officers (CFOs) or chief marketing officers (CMOs) were to businesses, they were still seen as "staff functions"—more administrative than strategic, more to serve the business than to drive it. The chief human resources officer (CHRO) role was no different in this regard.

But staff functions now must be strategic, and leaders in these roles must work accordingly. CFOs were the first to feel this pressure. More than a decade ago, CEOs wanted CFOs to be strategic partners, helping to drive the business. But CFOs were developed by a generation of finance professionals whose key skills were getting the books closed, managing the balance sheet, and reporting on where the company had been last quarter or last year. They were not forward-looking as to where the company needed to go. That has changed radically, and CFOs now are seen as leaders and experts in a complex, crucial area for their organizations, the C-suite, boardroom, and even in succession as CEOs (Burnison 2015).

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Today's CHROs also need to evolve. They should own the human capital agenda. They should operate just as a business unit president who is accountable to the CEO for the success of a business unit. CHROs are in the people business. They are the CEO's lead service provider for the enterprise's talent agenda—not the administrative agenda alone, but also the strategic and tactical talent agenda. That includes all aspects at all levels, including the C-suite. "An effective C-Suite leader must operate like a CEO—thinking broadly about the levers to pull to create value," says John Berisford, former McGraw-Hill Financial CHRO and now President of Standard & Poor's. "For a CHRO, it's all about alignment of talent to the growth and performance agenda."

CHROs' job no. 1: strategic advisors.

Business strategies typically fail because of poor execution, often the result of poor alignment at the executive committee level and weak collaboration among these key leaders. Historically, CEOs led the team and worked to ensure alignment and collaboration. They once had the time and the energy for this. But that is now drained by business travel demands, short time horizons required to deliver results, and overall complexity. (Some CEOs travel more than 100 days a year—as do many executive committee members).

Building a high-functioning leadership team is a people business. It will make or break successful execution of the business strategy. As the CEO's top talent advisor, and given the challenges and complexity, the CHRO should share the responsibility with the CEO for ensuring a high-functioning executive team. The company's business strategy and talent agenda depend on this. As goes the senior team, so goes the business. Beyond the effectiveness of the executive team, CHROs must drive the rest of the company's talent solutions operation. They must decide and execute on talent acquisition, leadership development, human resources technology platforms, compensation, performance management, culture, diversity and inclusion, learning and development, succession planning, employee relations, and a host of other requirements. When taking these requirements beyond the administrative to the level of strategic contribution, the CHRO, indeed, is the CEO of a talent solutions business.

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What a CEO should expect.

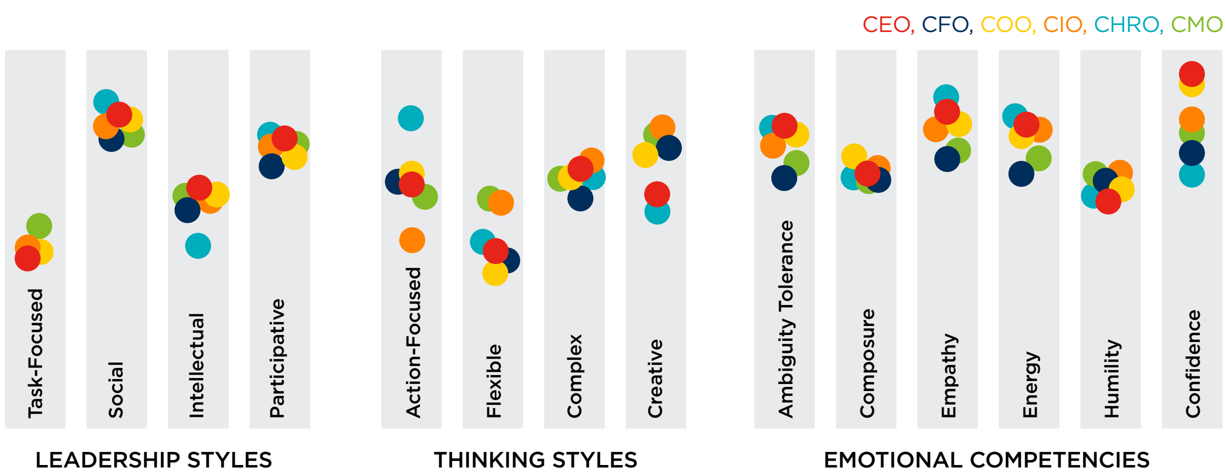
Unfortunately, some CEOs do not see the human resources (HR) function this way, and some CHROs are not up to this role. In either case, it is unlikely their fault—few have seen HR operate this way. It not only should be this way but also is essential that it becomes so. Those who launch now will gain the advantage.

As one expert described it: "Often HR pros are perceived as only able to deal with the softer side of business because they are diplomatic, typically positive in outlook and gracious. Others are mocked as the 'people police' who demand proper paper processes. ... The CEO, by contrast, requires an advisor who tells him or her what the key people issues are, and who rigorously influences him or her about solutions. Sometimes this uncommon role means unfamiliar accountability and risk. The CEO, however, needs HR to add value to every function in the company, rather than merely define itself by reducing head count." (Enns 2008).

Many CHROs can step up. Not only should they be performing like CEOs of talent solutions companies, Korn Ferry data shows that they are among the most qualified in the C-suite when measured against CEO competencies. (Ulrich and Filler 2014). In a study of executive assessment data, researchers analyzed 360° assessments of thousands of leaders in six C-suite functions—CEO, CFO, COO, CIO, CHRO, and CMO—in which each executive was ranked on 14 aspects of leadership on a scale from one to seven. The result, as published in the Harvard Business Review: The traits of CHROs matched up closely with those of CEOs (see Figure 1). If CHROs are empowered within the organization then they are likely to be successful in driving strategic human resources solutions.

Figure 1

How CHROs, CEOs align in key ways.



Source: Harvard Business Review. 2014. *Why Chief Human Resources Offices Make Great CEOs*

Empowered CHROs.

Next-generation CHROs will perform like the CEO of an HR solutions company, enabling human capital solutions for their company. They are not administering programs. They are creating impact and a return on the money invested in the company's talent systems. With this orientation, CHROs should have a point of view for both the present and the future. Just as CHROs should be brutally proactive in calling out and mitigating dysfunction within the executive team, they should do so about all talent systems with an eye on business strategy execution.

Those who subscribe to this premise say that what is needed then is a good HR business plan (talent strategy) and forward-leaning operating style for HR to function as a solutions provider rather than a program administrator. Without this orientation, the HR leader in many cases will fail.

A very senior HR leader, for example, was promoted to lead the talent function at a large global company. I congratulated him on what I called his "career change." He said, "I haven't changed careers, I've just been promoted." I disagreed. He needed to see this as a career change to break the mold of being an administrative service provider who basically looked after HR programs. He needed to understand that he had just become the CEO of an HR solutions company. In the end, he failed. Feedback from executives after his departure had one common theme—he did not engage business units and staff or embrace them as clients strategically. He knew they were his clients. He wanted to help them, but he did not effectively engage. One key leader echoed the sentiment of the others by saying of this executive, "He sat in his office and waited for us to come see him." Few successful solutions company CEOs sit in their offices waiting for clients. The company's existing talent systems continued to function administratively—it was business as usual. However, new HR work streams with impact were not created. The shame of this is that the executive had a real point of view, was brilliant, and did not seem to lack confidence. But by failing to lean in and consult from a position of authority, he did not put himself in a position of influence. Therefore, he had little impact, and his clients found solutions elsewhere. In outreach, engagement, and relationship building—all essential to being a strategic solutions provider—he failed, and so did his staff.

In contrast, here's how the role of a next-generation CHRO might look—and how it tracks perfectly with that of a successful CEO (see Figure 2).

Figure 2
Comparing next-generation CHROs with CEOs.

CEO	CHRO
Establish a clear mission statement for the company that sets a strategic tone and clear metrics.	Set a strong HR mission statement that is strategic and measurable.
Ensure that the board and executive team are aligned on the mission and the business plan.	Ensure that the CEO is aligned with HR's mission statement and plan. The CHRO must make this occur with strong stewardship and advocacy of the HR function, supported by a strong metrics-driven HR business plan.
Ensure the company's mission/direction will powerfully address client needs.	Ensure that the HR plan addresses the business needs, and the executive team and line and staff leaders agree that HR owns the talent agenda and must be more than their HR administrator.
Install strong leaders as their direct reports.	Place strong HR leaders in key roles.
Monitor results and modify strategy and tactics.	Monitor results and modify the HR strategy and tactics.

This vision of a CHRO's role requires outreach, engagement, and relationship building. CHROs are leaders first, technical experts second; this explains the need to make the mental shift in seeing promotion as a career change. Those who stay in the comfortable box of technician will not build the key strategic relationships needed to be highly effective. They will not be seen as business-minded commercial thinkers. After building a career largely on technical acumen, this can be a difficult shift to make (Dai and Swisher 2015).

A new day for HR?

But some companies are moving in this direction, including a Fortune 100 company where the CHRO serves effectively as chief operating officer (COO) without the title. As a solutions provider, he is a key advisor to the CEO on talent as a critical business driver. He behaves like the CEO of an HR solutions company. He sets strategic goals to drive the business. The company, for example, had a heavy concentration of long-term employees among its top 250. Innovation had stalled. The culture had ossified into defending the status quo. The HR leader set a goal: Within a given number of years, the company would significantly increase the percentage of the top 250 with fewer than five years' tenure with the company. This number needed to at least double so the company could drive innovation. He set this direction and put the actions in motion to deliver.

During this time, the CEO role for one of the company's flagship businesses was filled by an executive from a completely different industry. Four years later, the unit is flourishing in the face of disruptive competition. That's because the unit abandoned its "that's the way we have always done it" culture. The company has added dozens of outsiders to the top 250. When the company faced serious challenges from digital competitors, it could better address the threat.

The CHRO has led other big changes, including an HR transformation, an outsourcing of the talent acquisition function, a change in HR organizational design, and a revision of the performance management system. These and other CEO-like leadership behaviors have created an HR function—an internal HR solutions company—that this company's leaders see as mission critical.

Results when HR steps up.

Companies historically grew in slow environments. Shareholders sought steady, consistent earnings growth. This once was not nearly as difficult as it is today. Now globalization, complexity of business models, and disruptive technology have changed all that. Nimble, decisive, well-executed HR plans are needed and can have major business impact. When HR develops talent processes that create enterprise leaders, the function, one expert analysis says, can "boost employee performance by 22%, employee retention by 24%, revenue growth by 7%, and profit growth by 9%. … In fact, firms with enterprise contributors outperform their peers by 5% and 11% on year-over-year revenue and profit growth, respectively. This means that the average Fortune 500 organization can increase profit by $144 million and revenue by $924 million. HR should not make the mistake of thinking that most employees aren't ready or willing to be enterprise contributors. They are, but they're stymied by structure and culture of their firms" (Corporate Executive Board 2015).

HR must be courageous.

HR's solutions-oriented muscles must be activated decisively. HR must have a point of view and be proactive. If CHROs are concerned about a business leader's performance, they should step in and recommend actions. Although CHROs can predict a ranking colleague's failure, they all too often sit and wait for the CEO to step in. Instead, the CEO should expect the CHRO to be in the fray, collaborating and addressing the issue proactively. This is what solutions providers do as trusted advisors. Failing to adopt this HR leadership approach can be deadly. As HR thought leader John Sullivan has noted, "Weak people-management practices have been attributed as the primary causes of failure in a number of notable cases. At Enron and Bear Stearns for example, reward systems that incented dangerous behaviors easily overpowered the effect of control systems designed to prevent fraud and ethical breaches" (Sullivan 2010).

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While the final numbers have not been tallied yet on recent problems at Volkswagen, a similar meltdown at Toyota several years ago provides insights. As Sullivan has observed, quoting published reports: Toyota lost $155 million and nearly $30 billion in stock valuation. As he writes: "The long-term impacts of the root causes that led to Toyota's current situation could cost the company hundreds of billions of dollars. The mechanical failures were known to Toyota leaders long before corrective action was taken, and many close to the issue are indicating that the company took decisive action to hide the facts and distort the scope of the problem. ... The problem was again a rewards issue similar to that at Enron. When the organization disproportionately rewarded managers for cost-containment versus sustaining product quality, it created the incentive for everyone involved to ignore the facts and to deny that a problem existed. Employees who are well-trained and subject to balanced rewards and performance monitoring systems would not have allowed the situation to grow as it did" (Sullivan 2010).

Great CEOs and CHROs anticipate problems.

Let's consider a likely business situation. A company makes a significant acquisition, and, as often happens, the CEO of the acquired company remains in a key business leader role. This CEO has independently run the business for years. Now inside a much larger company, this executive is in an entirely new ecosystem. She is no longer the ultimate leader with total authority. There are now peers in other units. There is less board access than she had before and a host of other things that are new and different. Often she is confident in navigating this new environment, so she doesn't seek counsel.

In this case, the CHRO can safely anticipate that the acquired CEO is likely to be:

- Weak in socializing ideas and collaborating across a matrix.
- Weak in managing up and laterally.
- Biased toward legacy employees, making the parent company staff feel excluded.
- Weak in understanding of the larger company's culture and norms.
- Biased toward defending current operating processes—the not-invented-here syndrome.
- Weak in understanding the need to invest in building strong peer relationships.

The CHRO should step in, anticipating these issues, and providing counsel, insisting on putting systems and coaching in place to manage this transition. It's unlikely the CHRO will be invited in. But as a solutions provider, the CHRO must step in—and observe and measure the progress.

Conclusion

HR systems can move the dial as much as any business strategy executed by a business unit (McCabe and Bongiornio 2016). CEOs who miss the mission criticality of HR do so at their peril. HR drives the people-related systems of the company just as the chief information officer (CIO) drives technology; this is equally mission critical. CEOs must empower HR. The CHRO must have a point of view, be courageous, and capable of speaking truth to power. CHROs are leaders, not technicians. Kevin Silva, CHRO of Voya Financial, summarized this superbly, saying: "The CHRO needs first to be a business person with the same goals and understanding of the business as the CEO and CFO. Only then can the CHRO bring forward the human capital portion of the strategy, which would then align with the CEO's and CFO's vision. When the CHRO stands separate and apart from these two key partners, he or she stands alone and unaligned. When the CHRO stands shoulder to shoulder, the full potential of the senior team and the business can more readily be realized." Next-generation CHROs are the CEOs of a critical unit in the company. They should act accordingly. The CEO should require it.

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The Korn Ferry Institute, our research and analytics arm, was established to share intelligence and expert points of view on talent and leadership. Through studies, books, and a quarterly magazine, *Briefings*, we aim to increase understanding of how strategic talent decisions contribute to competitive advantage, growth, and success.

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