

CHAPTER ONE

THE EVOLVING CHIEF
HUMAN RESOURCE
OFFICER ROLE

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The chief human resource officer (CHRO) role has become one of the most important roles on the executive leadership team. Jack Welch, in his book *Winning* (2005), states of the CHRO role, “Without a doubt, the head of HR should be the second most important person in any organization. From the point of view of the CEO, the director of HR should be at least equal to the CFO” (pp. 99–100).

This has by no means always been the case. The HR function in general and the CHRO (albeit previously the director of personnel), traditionally played a largely administrative role in most organizations. However, over the past thirty years, the HR function, and especially the head of the function, has been elevated. With this increased status has come increased pressure.

This chapter examines the trends that have led to the current state of the CHRO role and explores the current pressures that provide opportunities and challenges for those who hold the role. It also presents a guide to the rest of the book. Thus, we will first describe the evolution of HR from the 1980s to now, noting some of the major trends and events that have affected the profession

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and the CHRO role. Then we will provide an overview of the rest of the book.

TRENDS IN HR

THE 1980s: HR GOES STRATEGIC!

The 1980s saw the emergence of the concept of strategic HR. Right around the turn of the decade, James Walker (1980) revised his book on human resource planning in which he noted that one consideration in developing an HR plan was the strategy of the business. However, at that time, little knowledge of strategy existed in the HR community (even in the general manager community, strategy had only recently become a hot topic).

Over the course of that decade, the HR profession sought to align its activities with strategy, but it did so largely in a siloed manner. In fact, in one of the foundational books on aligning HR with strategy, Fombrun, Tichy, and Devanna (1984) organized the chapters around such concepts as strategic staffing, the appraisal system as a strategic control, and the strategic design of reward systems. This approach implicitly assumed that each area of HR should align itself around the strategy of the business and that the role of the CHRO was to ensure that this vertical fit existed and to coordinate across these areas to ensure their activities did not conflict with one another, thus creating the horizontal fit.

THE 1990s: HR AT THE TABLE

Whereas the 1980s saw HR leaders talking about the need to be “at the table” (meaning part of the executive leadership team with responsibility for developing strategy), in the 1990s HR leaders increasingly achieved this position. Dave Ulrich’s book *Human Resource Champions* (1996) defined the major paradigm that would guide most HR professional thinking during the decade. In particular, the role of strategic partner gained unprecedented popularity. Although this was not necessarily new in terms of defining the activities through which HR leaders could work with business leaders for the success of the enterprise, labeling the

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role caught the attention of those within and outside HR. In addition, Ulrich described a basic HR operating model structure that consisted of the business partners (field generalists), centers of expertise (such as functional specialists from the various HR silos), and shared services (the more transactional aspects of HR).

Although this model provided the foundation on which CHROs could build their organizations, the latter part of the decade saw the emergence of the war for talent, which would become the springboard for the increasing importance of the HR organization, and the CHRO more specifically. Michaels, Handfield-Jones, and Axelrod's book, *The War for Talent* (2001), suggested that CHROs would become as important as chief financial officers to the extent that they could forge a link between business strategy and talent, act as the thought leader in understanding what it takes to attract great talent, facilitate the talent review and action plans, and become the architect of the development strategy for the top fifty to one hundred HR managers. Almost prophetically, they stated, "Today many more CFOs than HR leaders are on division management teams or corporate executive committees. Now that talent is so crucial to competitive success, look for that to change" (p. 33).

THE 2000S: FAILINGS FORWARD

While the previous two decades saw the CHRO role increase in visibility and importance for competitive reasons, the 2000s saw its visibility and importance increase because of a number of organizational failings. In the early 2000s, the dot-com bubble burst, and this was quickly followed by a rash of corporate scandals. No other company better exemplifies this transformation than Enron. In the late 1990s, Ken Lay, chairman and CEO of Enron, had stated, "The only thing that differentiates Enron from our competitors is our people, our talent" (quoted in Michaels, Handfield-Jones, and Axelrod, 2001, p. 2). By the mid-2000s, Enron was in bankruptcy, and Lay, his CEO successor, Jeff Skilling, and CFO Andrew Fastow had all been indicted and convicted. Company scandals at Enron, MCI-WorldCom, Qwest, and Adelphia Communications led to increasing regulatory pressure on companies' financial reporting requirements, particularly as

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exemplified by the Sarbanes-Oxley Act. This legislation, enacted in 2002, increased the public financial reporting requirements, created personal criminal liabilities for misreporting, and increased the required board governance.

Almost like a bookend, a second set of scandals rocked the business world at the end of the decade with the financial crisis spurred by the collapse of the subprime mortgage market. Massive government bailouts of the financial and auto companies increased government oversight over many aspects of firm operations, not the least of which was executive pay. This government interventionism was mirrored, and to some extent spurred, by a public distrust of large institutions in general and corporate executives in particular. In addition to the existing TARP (Troubled Assets Relief Program) regulations, the Dodd-Frank Financial Reform and Consumer Protection Act of 2010 imposed additional regulation of the financial industry.

Both of these traumatic events have further vaulted the CHRO role into the spotlight. The early company scandals resulted in increased board oversight of the succession, compensation, and performance management of senior executives. The more recent scandals have increasingly focused board attention on CEO pay and risk assessment. Consequently, the time that CHROs spend with board members has increased, and the critical role they play has amplified the risk inherent in their role. Those who effectively manage this new role can achieve new heights in status and impact; those who fail to do so will quickly be asked to leave the company.

SUMMARY

This recap highlights some of the major trends and events that underlay the changing role of the CHRO. Although these events existed at discrete points in time, their impact endures. They have been responsible for creating the requirements for today's CHRO. Although they certainly enlarged the responsibilities, visibility, and impact of the role, they also created a set of pressures that make the role both challenging and difficult. We next discuss these pressures, which serve as the organizing framework for this book.

PRESSURES ON TODAY'S CHRO

As the CHRO role has evolved, the expectations and demands on it have risen dramatically. Today CHROs face five general pressures that make the job both critical and exceedingly difficult. The first two deal with pressures from outside the organization, and the last three emanate from within the firm. These are depicted in Figure 1.1.

First, the competitive pressures are the forces that have changed the competitive landscape over the past few decades. Globalization has resulted in an increasing number of competitors from all over the globe, each with its own unique strength—for example, low-cost labor, highly innovative talent, greater local knowledge, or something else. Globalization also has increased cost competition, which results in CHROs' having to find ways to increase productivity for their firms. Whereas cost competition

FIGURE 1.1. PRESSURES ON THE CHRO



Note: ELT = executive leadership team

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requires getting cost out of the organization, building a growing revenue stream requires a focus on innovation. Finally, all of these pressures play a part in the development of a global war for talent.

Second, regulatory pressures describe the increasingly hostile regulatory environment that continues to have an impact on firms, particularly in the United States. In the early 2000s, Sarbanes-Oxley increased the reporting and governance requirements for firms. The financial meltdown of 2008–2009 placed an increased emphasis on risk management from both governmental watchdog agencies and shareholder groups. This also resulted in a more activist public policy as the U.S. Congress, the executive branch, and the regulatory agencies felt a need to exert greater control over corporate decision making in order to avoid another crisis. Finally, the health care reform act passed in 2010 will increase government regulation of a number of aspects of health insurance and health care delivery.

Third, one of the greatest pressure sources within the firm is the CEO. As the CHRO role has grown in importance, these officers increasingly interact with the CEO and do so in a way that is unique relative to some of their C-suite colleagues. The war for talent has caught the attention of most CEOs today, and they are demanding that the CHRO ensure that the company succeeds in this area. In addition, when a number of highly intelligent and highly ambitious people are put together, as on the executive leadership team, conflict is unavoidable. Thus, CHROs face the pressure to react to these team dynamics and manage them in a way that results in functional decision making and interpersonal communications. Finally, after a number of leaders in the financial industry earned large compensation packages right before the industry's collapse, executive pay has come to the forefront of public discussions. Certainly CEOs may pressure the CHRO to ensure that the CEO pay package is competitive, but given the subjectivity of the meaning of *competitive*, this creates another pressure for the CHRO.

Fourth, on the other side of the table is pressure from the board of directors. In particular, just as many CEOs and other senior executives want to maximize their pay packages, boards have increasing pressure to hold those packages down. In addition, boards are increasingly examined regarding their governance and

risk management roles in representing shareholders. Finally, after a number of high-profile CEO firings, the importance of executive succession has risen dramatically. In all these areas, the CHRO must react to the pressures exerted by the board.

Finally, we cannot forget that at least externally, people view the CHRO as the leader of the HR function, and that function is under increasing pressure. First, with organizations increasingly competing on their human capital, the demands on HR have increased, and HR functions must become more adept in the areas of attracting talent, executive succession, leadership development, and virtually all other aspects of HR processes. At the same time that the demands are increasing, the function is being asked to meet these demands with fewer resources. Finally, the CHRO must provide for increasing demands with fewer resources, but do so with a function that exhibits significant talent gaps. Thus, CHROs face the pressure of building the talent of the HR organization while simultaneously raising the organization's game.

OVERVIEW OF THE BOOK

Given these challenges, CHROs must play multiple roles, and it is those major roles that form the structure of this book. Part One describes the CHRO job from a broad perspective. J. Randall McDonald, CHRO at IBM, opens the part by laying out his learnings over almost forty years in HR. In particular he focuses in Chapter Two on what is required to be successful in terms of delivering results and how to develop a perspective and set of skills to perform in the role effectively. In Chapter Three, Eva Sage-Gavin from Gap Inc. describes what she refers to as the art and science of HR. This is the combination of the science in terms of proven tools and frameworks, as well as the art of knowing intuitively how to handle the variety of situations that CHROs face in their role. Richard Antoine, former CHRO at Procter & Gamble and currently the president of the National Academy of Human Resources, describes in Chapter Four the broad responsibilities of a CHRO. In particular, he points out that the critical areas for a CHRO are to deal with ethics, talent, and courage and coaching. In Chapter Five, Patrick Wright and Mark Stewart present the results of the Cornell/CAHRS Survey of Chief Human Resource

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Officers. They identify the seven roles of CHROs, five of which comprise the structure of the remainder of the book.

Part Two merges two of the roles that Wright and Stewart identified in Chapter Five. The strategic advisor to the executive team role entails sharing the people expertise as part of the decision-making process, as well as shaping how the human capital of the firm fits into its strategy. It entails the activities focused specifically on the formulation and implementation of the firm's strategy. Playing the role of talent architect requires that CHROs help the executive team see the importance of talent, identify existing and expected future talent gaps, and come to own the talent agenda. In many ways, these two roles are two sides of the same coin, with the only major difference revolving around whether the focus is exclusively on issues pertaining to the high-potential talent and senior leadership versus the issues with regard to the entire workforce.

Part Two begins with former Caterpillar CHRO Sid Banwart's chapter on the intertwined nature of talent and strategic advising. He describes in Chapter Six the importance of employee engagement to the firm's success and the need to have effective leaders who can build that engagement. L. Kevin Cox, CHRO at American Express, then provides a clear path in Chapter Seven and a set of guidelines for optimizing talent management. John Boudreau builds on these concepts in Chapter Eight. He shows how HR leaders can engage leaders from other disciplines by applying the logic of their proven business models to vital questions about talent and human capital. Michael Davis, CHRO at General Mills, describes in Chapter Nine the important work of CHROs in shaping and maintaining culture. Laurie Siegel, CHRO at Tyco, describes in Chapter Ten the strategic advisor and talent architect roles she had to play when taking over this role after the near bankruptcy of Tyco. Northrup Grumman CHRO Ian Ziskin closes out Part Two with a discussion of the unique role that the CHRO plays in talent and strategy when working for a government contractor.

Part Three addresses the issues that those in the CHRO role discuss only among their own in a dark corner of a secluded, nondisclosed location. Senior leadership teams are made up of highly intelligent, highly ambitious, and highly competitive individuals who are expected to work together. Needless to say, each

individual has his or her own personal weaknesses, and the dynamic that emerges when all are thrown together can lead to significant conflicts that CHROs find themselves in the middle of. This role is a broad one and can entail anything from behavioral or performance counseling to being the personal sounding board for the CEO.

David A. Pace, the former CHRO at Starbucks and now the CHRO at OSI Restaurant Partners, describes in Chapter Twelve the challenge that a CHRO may find when the chairman, CEO, and other members of the executive team find their agendas, personal or professional, in conflict. Elease Wright, CHRO at Aetna, has served under five different CEOs, and in Chapter Thirteen, she shares some of the tips she has found over the years in adapting her style to the style of each CEO. Similarly, Pamela Kimmet has served as the CHRO at Lucent and Bear Stearns, and currently serves as the CHRO at Coca Cola Enterprises. In Chapter Fourteen, she also shares her insights to how to adapt one's style and agenda to different CEOs. Elizabeth "Libby" Sartain, former CHRO at both Southwest Airlines and Yahoo! describes in Chapter Fifteen the need for CHROs to identify their personal values and brand. Finally, Patrick Wright and L. Kevin Cox discuss the results of the Cornell/CAHRS CHRO Survey again, this time with regard to how CHROs perceive their CEOs' strengths and weaknesses in relation to HR.

CHROs increasingly find themselves involved in interactions with the board of directors, and this is a role that they have indicated as the one they were least prepared for when entering the CHRO role. In Part Four, the chapter authors provide insight into and guidance for how to play this role effectively. Bill Rosner, recently retired as CHRO at PNC Financial, spent over thirteen years in that role during which he saw the his relationship to the board change significantly. In Chapter Seventeen, he describes some of the highs and lows he experienced as a means of showing what and what not to do. Edward Lawler, in Chapter Eighteen, discusses his research examining the role of the CHRO with the board and provides useful guidance for how to strengthen this link. Approximately half of the time CHROs spend with the board is around executive pay issues. In Chapter Nineteen, former CHRO at Bristol-Myers-Squibb and Saks Fifth Avenue

Charles G. Tharp identifies some of the major issues and challenges emerging around executive pay and provides some suggestions for how to succeed in this area. In Chapter Twenty, Ursula Fairbain, former CHRO at American Express, provides her proven strategies for dealing with board around executive pay.

Part Five describes the critical role that CHROs play in leading and transforming the function to deliver value for the firm. Ken Carrig, former CHRO at Comcast Cable (and former CHRO at Sysco Corporation), describes in Chapter Twenty-One a 100-day plan for entering the CHRO role and devising a strategy to transform the function. In Chapter Twenty-Two, Hugh Mitchell, CHRO at Royal Dutch Shell, describes the challenge in transforming a large, institutionalized HR function to meet the new competitive demands of the energy industry. Mirian Graddick-Weir went from CHRO at AT&T to CHRO at Merck. In Chapter Twenty-Three, she describes how to make an effective transition into a new CHRO role in a new company in a new industry. Amy Kates, John Boudreau, and Jay Galbraith provide some examples of innovative HR structures that are being used by successful companies today in Chapter Twenty-Four. Finally, in Chapter Twenty-Five, Sandy Ogg, CHRO at Unilever, describes how the HR function has supported a changing culture and strategy at Unilever over the past few years.

Part Six moves away from the role-based approach to the CHRO to focus on what CHROs must do and possess in order to be effective, particularly from the CEO's perspective. Dave Ulrich and Ellie Filler discuss in Chapter Twenty-Six the challenges that CEOs face today, and suggest how and what CHROs need to be able to do in order to help their CEO succeed. In Chapter Twenty-Seven, James Bagley of Russell Reynolds shares his insights gained over a career in working with CEOs to help them fill their CHRO roles. He describes the changing nature of the CHRO role as well as what it takes to be successful in that role. In Chapter Twenty-Eight, Patrick Wright and Mark Stewart describe their findings from a number of studies examining the demographic characteristics of CHROs in both the United States and globally. Finally, in Chapter

Twenty-Nine, Patrick Wright reviews the previous chapters to provide insight into the four critical knowledge areas that CHROs need to develop in order to be successful.

The CHRO role has been rapidly expanding and transforming over the past twenty years. No one book could exhaustively cover all the aspects of the CHRO's role, and it cannot do so in a way that might not be outdated ten years from now. Nevertheless, the content of this book is based on up-to-date research on the CHRO role and has been developed by those currently most in touch with what defines effectiveness in the role. We hope that you will find it both enjoyable and informative as you pursue your HR career ambitions.

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