

Which CHRO is right for your company?

Toward the best of both worlds:
business savvy and functional mastery

EgonZehnder

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For two decades it has been said that Chief Human Resources Officers (CHROs) should become strategic partners to the CEO.

To achieve that goal more and more companies have been appointing business-savvy executives as CHROs, though some of them might not have much experience in the HR function.

Is that the answer?

Not necessarily, say CEOs and CHROs across Europe, the Americas, and Asia with whom we conducted in-depth interviews about the issue.

Around the world, Boards and CEOs increasingly ask our firm about the advisability of appointing a CHRO whose background lies in business, not human resources. Such external candidates for CHRO could have led lines of business, worked as consultants, or headed some other function. We have also seen an increasing number of non-HR-functionally trained executives promoted internally to the top HR job. But Boards and CEOs facing a CHRO hiring decision should beware: the decision requires far more consideration than automatically choosing the leader from outside the function. That is the clear conclusion that emerged from our recent series of conversations with CEOs and CHRO leaders – both those who grew in business roles and those who rose through the HR function – representing most major industries on three continents. The insights from these in-depth interviews, detailed in what follows, can:

- Provide Boards and CEOs with criteria that can help them make the best CHRO decision in the context of their business and strategy
- Offer a long-term solution for meeting HR leadership needs in the future
- Supply a developmental roadmap for young HR professionals who aspire to the top job.

How Boards and CEOs approach the issue can make a great difference in the way they leverage talent and, ultimately, in the performance of the business. And it can make a great difference in the way HR departments look in the future.

Based on our interviews and our extensive experience, the most successful approach to finding the right CHRO includes the following five steps:

Step 1 / p.6

Be aware of the four pillars on which an effective HR function rests.

Step 2 / p.8

Consider the potential trade-offs between choosing a non-functional and a functional CHRO in the context of those four pillars of HR.

Step 3 / p.11

Assess the trade-offs in light of the company's specific challenges.

Step 4 / p.13

Shore up in the near-term whatever shortcomings the new leader may have.

Step 5 / p.15

Invest for the long term in the development of future CHROs who combine the best of both worlds.

Step 1

Be aware of the four pillars on which an effective HR function rests.

Across industries and across continents, the HR function should be adept at fulfilling its responsibilities in four essential areas.

While these responsibilities may seem obvious, it is important to distinguish them clearly at the outset and keep them firmly in mind throughout the hiring decision:

- **HR Basics:** These include the fundamentals of HR – payroll, employment contracts, pension plans, contracts with unions, and the other familiar transactional aspects of the role – skills that are usually acquired by experience in the function.
- **HR Practices:** These include structures and processes that require significant experience – recruiting, conducting behavior-based interviews, assessing performance and potential of employees, developing talent, maintaining shared services, and ensuring employee retention and engagement. For any organization to substantially grow and fully leverage the value of talent, those practices are vital.

- **Strategic Alignment:** The CHRO should be able to develop and execute an HR strategy in sync with the company's business strategy, focusing on mid- to long-term business objectives and their implications for the company's talent needs.
- **External Stakeholder Alignment:** The HR function should also be aligned with external stakeholders. That includes customers, end-consumers, potential employees, best practice companies, and academia – all of which can be valuable resources for helping the CHRO maintain a world-class talent operation and an attractive employment brand.

Traditionally, HR basics and HR practices have been seen as core competencies of functionally trained HR personnel, while strategic and external alignment have been seen as competencies more likely to be found in CHROs with previous business management or consulting experience. All four pillars are important for a CHRO. While the first two are HR's mission-critical "license to operate," the latter two are increasingly important in board room discussions and for today's customer-centered strategies in highly competitive environments.

Step 2

Consider the potential trade-offs between choosing a non-functional and a functional CHRO in the context of those four pillars of HR.

While generalizations must always be qualified by obvious exceptions, the CEOs and CHROs we talked with do agree that, in broad outline, functionally-trained CHROs leaders and non-functionally trained leaders bring with them distinct advantages and potential shortfalls.

CHROs with substantial HR experience can certainly be expected to offer the following advantages:

- Mastery of the mission-critical basics and practices without which a company cannot operate sustainably
- Ability to provide subject-matter expertise, feedback, and development guidance to HR personnel
- Skill at asking the right questions and influencing and enabling other people

And if an HR function needs rebuilding and there is no strong number two in the function to cover HR basics, a strong case can be made for choosing a functionally trained leader.

On the other hand, leaders trained exclusively in HR may bring some potential drawbacks, including:

- Excessive concern with processes and policies, thus limiting flexibility and agility in times that call for rapid change
- Desire to hold on to his or her area of expertise in a sub-function like compensation & benefits or talent management, instead of delegating it to a subordinate
- A narrowly focused internal view of the organization's needs and of the function's scope of action, unnecessarily limiting the value that HR can add
- Difficulty looking beyond that narrow scope to develop and drive an HR strategy derived from company strategy and attuned to external stakeholders

The potential advantages of business people put into the CHRO role include:

- Ability to act as a strategic advisor to the CEO
- Ability to contribute significantly to discussions of critical issues at the highest levels of the organization
- An understanding of the external context in which the company operates

- A focus on business relevance that can be used to shake up an HR function that is not closely aligned with the business
- A business results orientation, particularly if they are former line managers

The potential pitfalls of a non-functionally trained CHRO may include:

- Setting the wrong priorities or neglecting mission-critical HR issues, which in the worst-case scenario could entail expensive legal consequences
- Leading a function and team that he or she does not fully understand, and thereby failing to earn the team's respect
- Making the wrong decisions about HR strategies and, through lack of experience, failing to understand the longer-term impact of those strategic choices
- Underestimating the amount of time needed to master the HR organization and institute necessary changes
- Requiring longer on-boarding time than a leader with an HR background, delaying time to productivity
- Holding on to areas he or she knows well – such as recruiting or assessment, in the case of a leader who came from executive search – preventing direct reports from exercising their authority and growing in their roles

Moreover, appointing a non-HR person to lead the HR function can send a negative message to the HR team and may cause some talented HR executives to consider leaving because they believe the top job will never be open to them.

To repeat, these are generalizations, indicating broad potential areas of strength and weakness that Boards and CEOs – as well as aspiring CHROs – should be aware of as they consider the ideal profile for CHRO.

Step 3

Assess the trade-offs in light of the company's specific challenges.

Whether a functional or a non-functional HR background fits the bill for CHRO ultimately depends on the company's specific situation, strategy, and objectives.

On balance, our interviewees agreed that hiring a non-functional CHRO bears a high risk but also bears potential for high return in certain circumstances and industries. For example, a non-functional background may be desirable for companies in industries where people are the product. In professional services like consulting, for example, someone with a background in the business could be a dramatically differentiating factor through intimate knowledge of industry issues, the ability to understand and successfully recruit consulting “stars,” and the creation of distinctive employer branding. A non-functional background may also be desirable when the HR function needs bold, out-of-the-box ideas to accommodate such objectives as globally coordinated tal-

ent acquisition. On the other hand, if the company operates in a heavily regulated environment, depends primarily on a large blue-collar workforce, or is a small-to-medium enterprise, then the functional expert's knowledge of compliance, HR processes, and best practices in employee retention may be preferable.

The state of the business also figures into the equation. In a turnaround, it may be desirable to have an experienced functional expert who can execute smoothly as the company rapidly seeks to recover its footing. For growth in new markets and businesses, non-functional CHROs may be better able to coordinate talent strategy more rapidly with those business goals because they have developed new business in new markets themselves and have an intimate knowledge of which talents are needed and how to attract and develop them. If the business is roughly steady-state, then the choice may depend on the state of HR itself. If it needs shaking up, the non-functional leader may be called for; if it needs rebuilding, then the functional expert may be the better choice.

These categories can of course cut across each other. For example, a company can be a large corporate enterprise in an industry where talent is a major differentiator, but it could also be in turnaround. Another company might be in a heavily regulated industry like pharmaceuticals but need a CHRO who can help with an ambitious plan to enter emerging markets. Boards and CEOs must therefore not only consider all of these factors but weigh them in developing the CHRO profile.

Step 4

Shore up in the near-term whatever shortcomings the new leader may have.

Functionally and non-functionally trained CHROs alike can become truly outstanding if their unique development needs are met.

Functionally trained leaders should be given opportunities to develop broader and sharper business acumen, strategic thinking skills, and results orientation through coaching from business leaders, collaboration with customer-facing functions, and mentoring from the CEO. A seat on the board can also help bring them up to speed on strategy and give them an enterprise-wide and industry-wide view of the company. Before they become CHROs they may be rotated out of HR and into customer-facing roles for development purposes. In fact, some companies require every key leader, including CHRO, to assume such jobs.

Non-functional CHROs need to acquire knowledge and expertise in HR basics and best practices. If they are being groomed to succeed the incumbent, they should not only be

thoroughly coached but given the opportunity to shadow the current CHRO or other key HR executives. Once they assume the lead role, they should be surrounded with highly competent, functionally savvy HR professionals, including a strong second in command who understands key areas like compensation & benefits, payroll, shared services, and the like. Previous line managers should be encouraged to move from an answering to an asking the questions mode, from unilateral decision-making to influencing, and from acting to enabling. Previous consultants, who tend to be strong strategists and executive advisors, should be encouraged to focus on team leadership and the management of people and processes. Previous operations leaders, from areas like IT, supply chain, procurement, and manufacturing should be urged to focus on building strategic capabilities and business acumen to augment their already well developed ability to manage people and processes.

Step 5

Invest for the long term in the development of future CHROs who combine the best of both worlds.

Smart companies that understand the great value both CHRO profiles offer – and the potential drawbacks of each – will invest for the long term in the development of HR leaders who combine both functional and business competencies.

In addition to providing coaching and training in business disciplines to high-potential HR professionals early in their careers, smart companies will systematically rotate these promising leaders into line roles.

Those experiences will help them build knowledge of other functions, train them to think as accountable business people, and enable them to bring those skills with them

when they return to HR. And if they don't return, the business benefits from the addition of someone who really understands pivotal talent issues. Either result can make a real difference to an organization. HR high-potentials should also be exposed to the Executive Committee when appropriate, and assigned to cross-functional projects.

Such service, in addition to the benefits it provides for the company, offers significant development experience for the HR executive, including:

- The opportunity to work more closely with colleagues—and thereby improve collaborating and influencing skills
- A better understanding of strategic decision-making and the rationale for particular strategies—thereby improving the executive's ability to translate business strategy into HR strategy
- A better understanding of change initiatives—enabling the HR executive to become a better change agent

For its part, HR can also bring more diversity into HR by recruiting dynamic results-oriented, business-minded types.

As more and more companies adopt these approaches to long-term HR talent development, the HR function will evolve into the full business partnership that has long been sought by CEOs and CHROs. High-potential HR professionals will seek expanded development opportunities. Rotations out of HR and into the business will become routine. The business and the function will draw closer together not just at the top but also further down in the organization, and there will be far less need to import non-HR people into the HR function. Most importantly, there will be no need to make a difficult choice between two dramatically different profiles as HR talent development merges with succession planning to produce the optimal CHRO from within the function.

Which CHRO is Right for Your Company?

Be aware of the four pillars of an effective HR function	Consider potential trade-offs between functional & non-functional CHRO
1	2
<ul style="list-style-type: none"> ● HR basics ● HR practice ● Strategic alignment ● External stakeholder alignment 	<p>Functional</p> <ul style="list-style-type: none"> ● Mission-critical basics ● Subject matter expertise ● Influencing/enabling people <p>Non-Functional</p> <ul style="list-style-type: none"> ● Business acumen ● Understanding external context ● Results orientation

Assess company-specific needs for HR leadership	Correct shortcomings of current/new CHRO	Invest in long-term development of future CHROs with business savvy and functional mastery
3	4	5
<p>Depending on</p> <ul style="list-style-type: none"> ● Industry ● Company size ● HR specific issues ● State of business ● Regulatory environment 	<p>Functional</p> <ul style="list-style-type: none"> ● Coaching from business leaders ● Rotation into business-facing roles ● Collaboration with business-facing functions <p>Non-Functional</p> <ul style="list-style-type: none"> ● Shadowing current HR head prior to succession ● Surround with highly competent HR professionals 	<ul style="list-style-type: none"> ● Coaching and training in business disciplines ● Rotation into line roles ● Exposure to Executive Committee ● Assignment to cross-functional projects

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We are very grateful to the many individuals who shared their thoughts and experiences with us and thus contributed to the findings of this article.

We would also like to thank Dominik Schaller, consultant at Egon Zehnder, Zurich.



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