Disrupting the CHRO
Following in the CFO's footsteps

BY CATHY BENKO, TRISH GORMAN AND ALEXA ROSE STEINBERG
> ILLUSTRATION BY JIM TSINGANOS
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Illustration by Jim Tsinganos
If you are old enough to have known anyone in charge of a corporation’s finances in the 1970s, he might not have worn a green eyeshade, but he was assuredly relegated to the back office, focused on accounting, controls, and preparing financial and tax statements. Fast-forward to today, and the role has evolved into something deserving of the high-ranking title of “chief financial officer,” so influential in major decision making that it is now considered among the most important in an organization’s C-suite. So how did the money counter transform into one of the CEO’s closest partners in driving business strategy?

As scale became a competitive imperative, and as managers began seeing the company more as a system of investment than a system of production, finance came to the fore. Financial capital was recognized as the primary scarce good and its shortage as the biggest constraint on growth. At the same time, alternative approaches to accessing capital and funding projects proliferated, forcing financial decision making to become increasingly sophisticated. Financial moves that depended on a firm’s particular situation and goals eclipsed generic, one-size-fits-all solutions, which drove a major transformation of the senior finance executive’s role into a position requiring new levels of strategic thinking.

There is another role that is just now embarking on what promises to be a similarly transformational journey. Again, it’s a role with administrative roots, but at its heart, similarly focuses on an asset critical to success, the scarcity of which has now become among the biggest constraints on corporate growth. Welcome to the new world of the chief human resource officer (CHRO).
Insufficiency of talent is emerging as a critical inhibitor of growth strategies, and it operates at two levels. First, many companies lack sufficient levels of talent to devise repeatable game-changing, next-generation offerings. Second, to execute any particular growth strategy, companies should retain and engage the people who are critical to their current business while attracting and assimilating new talent with relevant skills to lead future endeavors.

What some see as a paradox, corporate managers know as their painful reality: Despite persistent high levels of unemployment, growing numbers of jobs are going unfilled. Latest reports in the United States show some 3 million positions vacant, even as over 7 percent of those wishing to work find no one willing to hire them. California is a case in point. Unemployment in the state as we write this is at 8.9 percent—yet there are 840,000 jobs available.\(^1\)

For reasons from changing demographics and altering family structures to shifts in generational attitudes and the impacts of public policy, companies can no longer assume they can draw on an ample, let alone abundant, pool of skilled talent to achieve their growth objectives. Unlike previous tight talent markets where shortfalls in critical skills reflected overall low unemployment, today’s critical talent shortage is the result of a major mismatch between available skills and needed ones. And this mismatch is far-reaching. Of the 312 CFOs and other executives at large companies in a recent survey, 39 percent said that they were either “barely able” or “unable” to meet the demand for the talent required to run their organizations.\(^2\)

Now add to this talent scarcity the fact that information and communications technologies have enabled whole new work arrangements by allowing knowledge workers to connect with employers and projects contractually, remotely, and asynchronously. We are now in the midst of what we call the “open talent economy,” in which people move more freely than ever from role to role and across organizational and geographic boundaries.\(^3\) The term is a nod to the open source movement in software development. What that model did for access to applications, the open talent economy is doing for access to work. What this means is that the role of the executives focused on the people aspects of the business takes on new contours, and their decisions must become more creative and strategic.

To be sure, HR has been moving toward a greater focus on strategy over the three eras delineated by Cornell’s Patrick Wright. In the 1980s, personnel directors realized they needed to do more to align their largely administrative work to the strategy of the business. By the 1990s, these executives, now styled “human resource” officers, believed they should have “a seat at the table” where business strategy was being formulated.\(^4\)
Now we’re entering an era in which firms compete on knowledge and intangible assets (figure 1), and access to and management of critical talent is of strategic importance. The CHRO must step up to the implications of the new world of work. That’s easier said than done. As Matthew Burkley, CEO of Genscape and former CFO of ThomsonReuters Sales and Trading, puts it, “HR used to be about processes and controls. Now, they need to be about driving business results. The challenge of the transition is that a lot of HR people try to “talk the talk” about building talent strategies, but they inevitably retreat back to their comfort zone and want to implement some new system or process.”

Figure 1. The source of US corporate value creation has changed

40% 60% 85% 15%
c. 1982 c. 2010

Tangible assets Intangible assets

Source: Juergen Daum; Ocean Tomo

How can the transformation to a more strategic, growth-focused kind of leader really happen? The success story of the CFO role may be especially instructive for tomorrow’s CHRO.

LEARNING BY ANALOGY

What could be more of a commodity resource, utterly undifferentiated and nonstrategic, than monetary currency? That’s why, in the first century of the corporation, other managers dismissed the financial function as doing little more than counting beans. Back in 1922, Henry Ford had this to say: “Nothing can be made except by makers, nothing can be managed except by managers. Money cannot make anything and money cannot manage anything.”

The original work of top financial executives fit squarely into the finance conception of control. CFOs focused on close management of cash flow, costs, and risk. Their main responsibilities were financial reporting, audit and compliance,
planning, treasury, and capital structure. But the role evolved in response to a
number of new imperatives. Princeton sociologist Dirk Zorn, who has researched the
history of the CFO role, pegs its beginnings to the days of “the conglomerate ideal,”
when companies needed senior finance people to handle the funding of those di-
versifying acquisitions.

Zorn notes, however, that the CFO role really took off after 1979, when sav-
vvy financial managers found ways to protect corporate earnings from ambiguous
changes in accounting rules. “The CFO’s popularity quickly surged as a result,” Zorn
reports, “and the role kept expanding in the following years to focus on managing
shareholders and stock prices.”

Since then, external forces, from stringent new rules for compliance and regula-
tory oversight to new practices by Wall Street analysts, have continued to reshape
the CFO’s agenda and role. Among these forces:

- More types and sophistication of financial instruments along with increased
  attention to the impulses of the financial markets
- Technology advances in real-time information access and trading with cor-
  responding complexities
- Access to global capital markets
- More complex and involved regulatory requirements
- Greater (and often more critical) external scrutiny
- Burgeoning expectations related to innovations in financial structuring
- Fallout from the late 2000s financial crisis

As the CFO function shifted to a shareholder/stakeholder value and institu-
tional management role, it increased in prominence. Today, the professional who
is hired or promoted into a multinational’s CFO role helps to set the course of the
business. That means being able to advance an organization’s growth or improve
its competitive position by identifying the key constraints holding it back and then
using finance to free it from those constraints.

Transformations of roles, in any realm, take time to play out. For CFOs, it has
involved both displacements of incumbents operating in outdated modes and
emergence of new feeder career roles. But a glance backward reveals how radically
firms’ expectations have changed with regard to the CFO’s breadth of background
and the caliber of talent the position attracts. Baseline financial skills are still essen-
tial, but international experience, industry knowledge, technology expertise, and
strategic acumen carry the day.
Figure 2. History repeats itself: Parallels between the CFO and the CHRO

This graphic summarizes key changes in the CFO and CHRO roles to date, based on a collection of job descriptions from several leading executive search firms over a period of 15 years and interviews with current and former CFOs and CHROs.

**CFO past**
- Oversee accounting and audit functions
- Demonstrate technical and functional financial expertise
- Respond to capital and liquidity needs
- Lead finance function
- Provide direction on public reporting
- Drive efficiency and cost reduction
- Ensure compliance and participate in corporate governance
- Focus on controls, internal risk management, financial planning and analyses
- Develop and execute enterprise-wide financial processes and policies

**CFO today**
- Ensure technical and functional financial expertise across the enterprise
- Work with line management, leadership, and board
- Drive enhanced top- and bottom-line results, enable business expansion while managing risk, tax, and timing issues
- Identify and remove growth and profitability constraints
- Represent leadership decisions internally and externally; actively participate in corporate governance and contribute to board meetings
- Ensure strategic allocation of capital across investments
- Ensure alignment of financial, operating, and planning decisions with overall business strategy
- Identify and interpret data and trends (social, regulatory, political, economic) and translate into opportunities
- Provide strategic problem solving; Build skills as potential CEO successor

**CHRO past to present**
- Accountable for creating and executing operating HR processes and policies
- Demonstrate HR technical and functional expertise
- Work with admin functions and support top management team
- Responsive to hiring needs and building talent pipeline
- Evaluate employee performance
- Develop competitive compensation and benefits offerings
- Develop, communicate, and implement policies
- Ensure process control
- Execute change processes

**CHRO evolving**
- Ensure effective operational HR delivery
- Align organizational talent capabilities with overall business strategy
- Work with line management, leadership and board; advocate for employees at the executive table
- Interpret talent trends—social, regulatory, demographic, economic—and translate into opportunities
- Ensure rewarding environment; improve employee engagement
- Implement aligned end-to-end global talent management architecture
- Design and implement competitive, compliant, and market-sensitive variable compensation schemes globally
- Drive organizational change initiatives
- Provide strategic, innovative problem solving
- Be steward of organizational culture and values

Source: Heidrick & Struggles, Korn/Ferry, and Russell Reynolds Associates

Graphic: Deloitte University Press | DUPress.com
Though no one today would refer to people management in pure commodity terms, the human resources organization started out as a back-office, administrative function in the mold of the 1970s finance function. The very term “resources” suggested that the warm bodies who showed up to workplaces were just another undifferentiated input to production. But things have changed dramatically. Corporate strategies have shifted to emphasize the necessity of growth and innovation—and with that change, human resources reveal themselves to be highly differentiated in terms of skills, engagement, and adaptive capacity.

We now find ourselves in a situation where, just as the management of differentiated critical talent comes to the fore, the talent to manage it strategically is itself in short supply. The next several years will likely bring the imperative for transformational change to the role of the CHRO.

One way to gauge the current and future trajectory of an organization’s talent platform is to evaluate HR’s project/program portfolio: How well does each directly align with the strategy of the business? The portfolio of investments will yield the organization’s future currency.

But, just like some CFOs of times past, not all incumbent HR executives are likely to make the change. Many are primarily focused on the plethora of concerns—operational, regulatory, and tactical—that can so easily consume their capacity and result in gaps between strategic demands for talent and the CHRO’s ability to deliver. A recent survey of CEOs reveals that, among all direct reports, HR is overwhelmingly viewed as the least agile function. In our own conversations with CFOs about the need to form effective C-suite partnerships, we consistently hear that their attempts to work strategically with HR are the most trying.
As companies begin to feel the pain of this talent leadership crisis, they will find ways to address it, and it is likely no single recipe will emerge. Some HR leaders will make major contributions to the companies they grew up in. But many firms will look outside for a fresh understanding of talent. This is happening already: While in 2011, 54 percent of CFOs were groomed and promoted internally, the story was different for CHROs. From 2008 to 2011, only 34 to 38 percent of newly appointed CHROs came up from inside. Similarly, the average tenure of CHROs has declined over the past 10 years.11

Another trend underscores the difficulty HR executives seem to be having with the transformation. In a recent Harvard Business Review article, Harvard Business School professor Boris Groysberg, along with Kevin Kelly and Bryan MacDonald, observe that, “Instead of turning to career HR practitioners, companies are increasingly filling the CHRO role with leaders from functions on the business side, such as operations, marketing, or corporate law.” The authors postulate:

*If companies continue to award top HR jobs to non-HR executives, the CHROs of the future will be more likely to have an understanding of commercial models, as well as experience with change management and finding pragmatic solutions to complex issues. And they will put extra pressure on HR specialists in functions like talent management to shift their focus from theory to business management.*12

We see more frequent instances of this type of hiring move by CEOs including at Liberty Mutual, Credit Suisse, and Yahoo, to name a few.

Whatever professional background and training executives bring to human resources leadership, however, the CHRO of the future will find the role steeped in four dominant themes:

- Recalibrating the CHRO role
- Embracing open talent models
- Going long on analytics
- Curating the talent experience

**RECALIBRATION**

Specifically, what needs to be recalibrated by the CHRO is the role itself. Our model of an effective leader has four “faces”: Catalyst, Strategist, Steward, and Operator. In the case of the CHRO, this model helps to clarify the need to “dial up” from steward and operator activities to focus more sharply on the strategist and catalyst “faces.”

According to Lauren Doliva, managing partner of Heidrick & Struggles’ Global HR Officer practice, “The CHRO role must be reinvented. There are no longer “best practices” in human resources. Instead, the CHRO must be an executive who,
like top CEOs, can envision and shape the talent strategy and architecture to align with transformational business objectives.” To do that, however, will likely require CHROs to find ways to tend to today’s “table stakes” while delivering on the broader (and intensifying) demands of CEOs and boards.

Doliva goes on to say that, “In a marketplace where talent is scarce, boards are taking note of the opportunities for getting the talent agenda right—along with the risks of being left behind.” Witness, for example, the decision by Qualcomm’s board to form a “talent risk committee” and the growing movement in the United Kingdom to account for talent on companies’ balance sheets.

Talent leaders should recalibrate not only their own focus and time, but also those of the resources they direct. One way to gauge the current and future trajectory of an organization’s talent platform is to evaluate HR’s project/program portfolio: How well does each directly align with the strategy of the business? The portfolio of investments will yield the organization’s future currency.

This is precisely what the CHRO of a Fortune 100 Silicon Valley-based technology company managed to pull off recently. New to the organization, the CHRO asked her leadership team to step back from HR’s several hundred line items of projects and initiatives to answer the following question: What strategic purpose and collective set of outcomes do we expect this portfolio to deliver for the business? The answers she heard were neither consistent nor clear. So the leadership group sequestered themselves in a two-day “lab” session. When they emerged, they had crafted a talent agenda that was strategic, actionable, and measurable. The agenda...
represents HR’s areas of focus and mutually reinforces the talent-related system of change that the business is predicated on. While the leaders still run their own shops day-to-day, they now do so with a strategic mindset, a consistent view, and a set of supporting guideposts. This model for strategic alignment leaves little room for veering off course. In the process, the team infused an esprit de corps within HR that is permeating the entire business.

This CHRO, an example of a recent high-profile appointment into a blue-chip firm, stressed that many of her HR leaders had the right ideas. It was a matter of bringing it all together through a strategic frame and finding the right mechanism to measure and hold them accountable. Melanie Foley, EVP and Chief HR and Administration Officer at Liberty Mutual Insurance Group, followed a very different path to Liberty’s top HR job. She grew up on the business side and, before becoming CHRO, held the role of EVP, general manager of the personal markets distribution organization. Her perspective, however, parallels the tech CHRO’s. Foley states that her proven track record enhanced the credibility of the HR function, opened doors, and gave a platform to HR professionals to advance the function in a more strategic direction.¹⁵

**OPEN TALENT MODELS**

One well-documented change: The traditional model of nine-to-five job holders clocking in to assigned office workspaces is waning. The open talent model is a significant departure from dabbling with flexibility and remote work around the edges of the traditional paradigm. The CHRO should be equipped to think beyond the “corporate ladder” way to hold a job and embrace the new “corporate lattice” world of work.¹⁶

John Hagel and John Seely Brown have spent the past several years tracking what they call the “Big Shift” in the global business environment as a result of digital technology. One set of changes they describe is the rise of creative talent, its growing role as a source of value, and its increasing mobility. Hagel explains:

*The Big Shift is creating mounting performance pressure for companies. In responding, companies need to be more aggressive and creative in reaching out to, and connecting with, relevant talent wherever it resides. More importantly, companies need to find ways to build relationships with relevant talent outside the firm that will help all participants to learn faster and achieve ever higher levels of performance. If we can do this effectively, we will be able to drive leveraged growth for companies—delivering more and more value to the marketplace with limited internal resources.*¹⁷

Just as CFOs today engage on behalf of their firms in global financial markets—wielding tools ranging from foreign currency exchange models to risk hedges—the
CHRO increasingly should make use of a suite of complementary mechanisms to engage with these dynamic global talent markets. Capitalizing on the Big Shift will likely entail trading off the benefits of stable and flexible workers, setting criteria for “buy, build, borrow” talent decisions, and finding ways to anticipate large-scale changes and their implications for talent needs.

Talent now comes in many forms—full-time or part-time employees, seasonal or situational workers, independent contractors, and other extended ecosystem members. With more variety in the offerings in the talent marketplace, more op-

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tions for how to structure employment arrangements, and different types of attendant risks, the CHRO should rethink investments in talent in terms of their placement, expected future benefits, and duration.

Redefining work, jobs, and competition for ideas and designs is part of the CHRO’s new challenge and will emphasize composition of “off-balance sheet” talent networks. This will involve new collaborations among CHROs, business unit leaders, functional leaders, and procurement. CEOs expect that the CHRO will be able to articulate how a company will navigate this dynamic talent market and find the most reliable path to growth. As CEO Burkley told us, “CHROs need a plan for attracting the right talent, not some generic concept of top talent” to fuel growth and competitive advantage.18
ANALYTICS

For an executive like the CFO, coming from a quantitative background, analytics is a native language. Beth Axelrod, former investment banker and strategy consultant, and now CHRO for eBay, makes the contrasting observation that, traditionally, HR has relied more on qualitative strengths and shied away from quantitative analytical tools. Going forward, the effective future CHROs’ investment priorities will need to include fact-based, predictive insights.19

Today’s analytic capabilities provide great opportunities to expose underlying trends and the relationships among any number of empirical variables. There is a risk in this, of course. Matt Tabor, Cisco’s organizational effectiveness leader, cautions that the overwhelming availability of data can make it easy to get distracted.20 Working backward from desired outcomes, rather than data mining in the hope of unearthing some unexpected gem of insight, is often the more effective way to apply analytics to targets. CHROs should generate and syndicate clear problem statements specific to their industry and company situation, then deploy analytics to tease out the root causes and their dynamics. The use of analytics to design, defend, and activate a growth-oriented agenda will be a key source of newfound credibility and a hallmark of great HR leaders.

The case of a large financial services organization that needed to double the size of its sales force is one such example. It assumed the deepest talent pool for successful sales recruits would be the existing employee base. To test that theory, the company put both internal and external candidates through its hiring process and tracked all the hired individuals’ subsequent success. The effort yielded two models with real predictive power: one to predict which applicants were most likely to make it through the interview process and be hired, and the other to predict which salespeople would excel in their first year. But the results were surprising. It turned out that, while existing employees were in fact more likely to make it through the rigorous sales hiring process, they were less likely to succeed as salespeople. Based on this insight, the company changed its hiring process, not by denying internal candidates the opportunity of a transfer, but by finding ways to evaluate them based on potential for future success in sales rather than past success in other parts of the organization.

Similarly, some leading HR teams are using predictive models to identify precisely where interventions should be targeted, down to the level of a particular person at a particular time, thereby getting greater impact from their limited resources. Consider how valuable this can be for a company trying to protect the gains it has made in diversity and inclusion, for example. Being able to direct highly focused
interventions toward small cohorts or individuals who are at particular risk at specific times in their careers can make all the difference to retention.

CURATION

As information, opinions, and experiences about what it is like to work at a given organization proliferate through formal and informal channels, the CHRO role becomes a node in a complex, multifaceted network of impressions and communications. Attracting and retaining critical talent and developing valuable cultural collateral rely not only on offering challenging jobs and attractive salaries, but on cultivating a rich context of meaning, values, and connections. Today’s CHRO is the curator of enormous potential intangible and tangible value.

Today’s pervasive and universal technology advancements may help define our future workforces, but they also ensure that all of our corporate houses are, to borrow from Fortune journalist David Kirkpatrick, “built of glass.” There is no longer the singularity of top-down (and top-out) communications defining a company. A company’s professionals can, and often already are, serving as its ambassadors—its brand advocates—walking and talking and texting and tweeting expressions of the company’s brand on its behalf. And what’s more, what they say is deemed trustworthy. Research shows that people trust their friends and neighbors—people “like them”—significantly more than they trust the heads of companies as to what a company’s culture is like.

If today’s employees are serving as ambassadors for the brand, they’re also expecting the companies they work for to better align with their own beliefs. Providing employees with a sense of purpose and contribution to the greater good is becoming a necessary requirement for attracting and retaining desirable candidates and will require CHROs to collaborate with leaders from marketing, community relations, corporate responsibility, philanthropy initiatives, and the like.

More CHROs should join forces with chief marketing officers, seeking increasing crossover between marketing and recruitment. When a prospective employee weighs two competing offers based not only on salary, health benefits, and location, but on their sense of affinity to the brand, passion for the product, and respect for their future co-workers, it is vital that all these attributes can be communicated, measured, and demonstrated. CHROs can assimilate marketing tools to segment employees and to curate an appealing and authentic set of offerings. Providing professionals with specific, credible, meaningful data points about a company can give them news to share with others that can improve the company’s standing and create a virtuous cycle of positive feelings in current and potential employees who share similar values.
As the bounds of the traditional organization are expanding to accommodate a new blend of balance sheet and open source talent, the bounds of what workers want from an employer in return for their loyalty and commitment—and the voice they have (through social networks) to express their thoughts—expand as well. Any company that wants the creativity and commitment of what Hagel and Brown call “passionate workers” needs to learn more about the means through which companies can enhance engagement. Engaged workers tend to be more resilient and more open to learning from setbacks; they’re also more likely to share their positive (or negative) professional experiences with others. And with many large companies pushing to have 50 percent of their new hires come from referrals, it’s today’s workers who will help define tomorrow’s workforce.

CREATE YOUR OWN FUTURE, OR SOMEONE ELSE WILL

Professor Groysberg sums up the transformation of the chief financial officer in this way: “Many CFOs saw themselves as great stewards viewing the business through an accounting versus a strategy and value-creation lens. The top finance job now is far more of a strategist, involved in helping the CEO and business heads find new opportunities and assess their strategic and financial merits and risks.”

The same strategic shift in mindset is required to excel at the CHRO role today. Inevitably, the misalignment of expectations between the CEO and the CHRO will be rectified by those HR leaders who are able to develop and deploy strategic, relationship, operational, and technical HR capabilities at scale. The change, which may well transform everything from the position’s power base to its performance metrics, may disorient not only the CHRO, but the other members of the executive leadership team. All will have to adjust to different expectations, fact-driven solutions, measurable and measured outcomes, and an altered influence base.

The path to today’s CFO was not linear—and left to its own devices, the transformation of the CHRO could also proceed in a haphazard way. But while the CFO role was reinvented over the course of some decades, the CHRO will not be afforded nearly the same runway. The rapid pace of change in talent markets, technology, and social norms and mechanisms demands a more timely, systemic, and strategic response. Rather than build up, or onto, the existing role description, CHROs should work from a clean slate to envision what this increasingly vital role will require, using the current model of the CFO as a guide and gap analysis results to plot a transformative path.

The global economy is poised for a growth cycle with both cash reserves and CEO confidence trending upward. A limiting factor will be the increasing scarcity
of talent, which will only intensify the need for CHROs to find the way forward. Drawing from analogy, seeing the necessity, and applying ingenuity, CHROs who can surmount the disruption of the role may well see their internal effectiveness, external market value, and overall stature climb.

Cathy Benko is a vice chairman and managing principal with Deloitte LLP.
Trish Gorman is a director with Deloitte Services LP.
Alexa Rose Steinberg is a manager with Deloitte Services LP.
Endnotes


17. John Hagel (co-chairman, Center for the Edge), interview by Cathy Benko, October 2013.


