

CEO perspectives

How HR can take on a bigger role in driving growth

An Economist Intelligence Unit research programme



Contents

About this report	2
Introduction	3
1 HR and organisational strategy	4
2 Strategic influence of HR: the current reality	6
3 CEO and the head of HR: the personal relationship	8
4 Executive team management	9
Large companies and hurried conversations	10
5 Conclusion: best practices for CHROs	11
Appendix: survey results	13

About this report

CEO perspectives: How HR can take on a bigger role in driving growth is an Economist Intelligence Unit report, sponsored by IBM and Oracle. It investigates whether the HR function is forging a close and robust relationship with the CEO. It also explores the nature of these working relationships, how they have been affected by the economic downturn and how they vary across industries and regions.

The Economist Intelligence Unit bears sole responsibility for the content of this report. The findings do not necessarily reflect those of the sponsor.

The paper draws on two main sources for its research and findings:

- A global survey—conducted in May 2012—of 235 C-level executives, 57% of whom are CEOs. The respondents are based in North America (47%), Western Europe (40%), Eastern Europe (8%) and the Middle East (4%); a total of 38 countries are represented. A wide range of industries is also represented, including financial services (15%), healthcare, pharmaceuticals & biotechnology (12%), professional services (12%), manufacturing (10%) and IT & technology (8%). Half of the companies are large, with over US\$500m in annual revenues; the other half are small and mid-sized.

- A series of in-depth interviews with senior executives from major companies and other experts listed below.

Lucy Dimes
CEO for the UK and Ireland, Alcatel-Lucent

Philippe Gas
CEO, Euro Disney

Dinesh Paliwal
CEO, Harman International

Zoe Yujnovich
CEO, Iron Ore of Canada

Paul Sparrow
Professor, Director of the Centre for Performance-Led HR, Lancaster University

Richard Beatty
Professor, Human Resource Management, Rutgers University

We would like to thank all interviewees and survey respondents for their time and insight.

The report was edited by Gilda Stahl.

Introduction

Two dominant trends are potentially reshaping the role of the HR function in the corporate world. The first relates to the rapid growth of the knowledge economy. In this environment, a committed, appropriately skilled and prudently deployed workforce is critical in order to develop new products and outstrip the competition.

Second, many administrative functions that were formerly handled by HR departments, such as payroll and pensions, have now been farmed out to third parties. Indeed, research reveals that more than two-thirds of companies outsource a portion of their HR functions.¹

The HR function has thus been presented with an opportunity. Unburdened by some of their former responsibilities, HR specialists have a chance to transform their role, exploiting their image as experts in people to place themselves at the heart of the debate on a company's strategic direction.

An extensive survey conducted by the Economist

Intelligence Unit, sponsored by Oracle and IBM, confirmed that those at the pinnacle of the corporate world—chief executives—are very concerned about the potential negative impact of certain people issues, if they are not handled properly. A significant proportion of CEOs polled believe in the ability of their head of HR to help the company to overcome these challenges. However, although the HR function is believed to perform well within its own parameters, some doubts remain about its commercial understanding of the wider business. This indicates that heads of HR have not completed their transition from administrator to strategic partner in the eyes of the CEO.

However, heads of HR already may have a platform from which to penetrate the strategy sphere. They often are indispensable to the CEO as a sounding board, and if that atmosphere of goodwill and trust could be fostered, it could culminate in greater strategic involvement for the HR function. ■

1. Chartered Institute of Personnel and Development (2009) "HR Outsourcing and the HR Function", p.7.

1 HR and organisational strategy

“For me, human resources are the nuts and bolts of the business.”

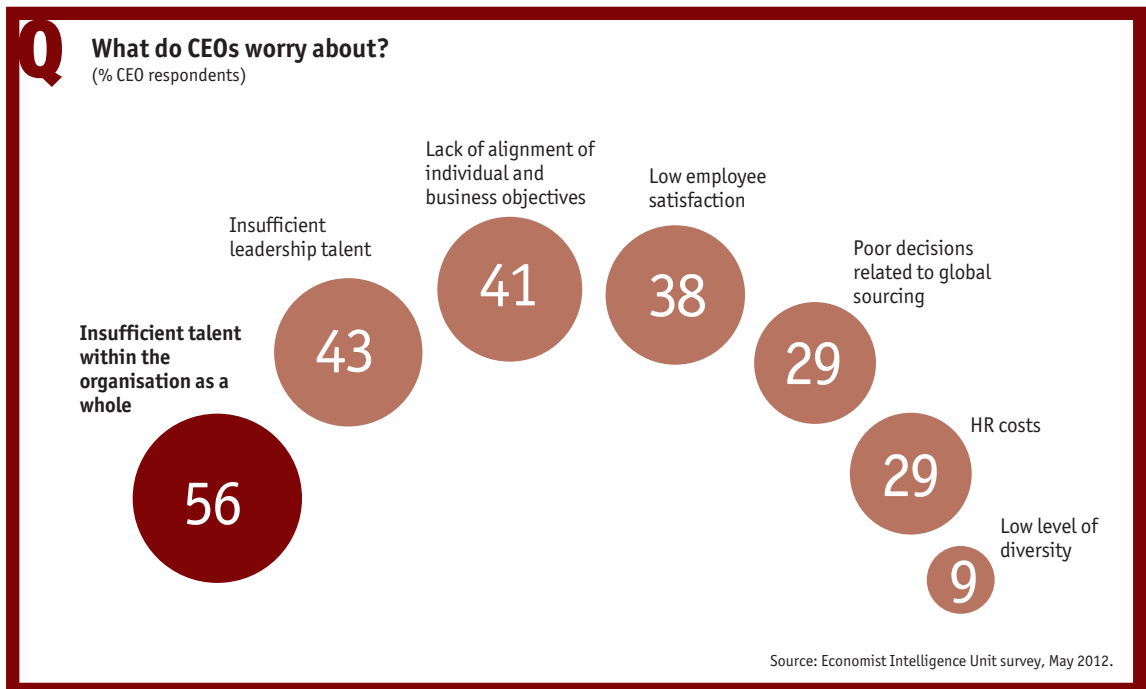
Philippe Gas, CEO, Euro Disney

CEOs are concerned that workforce challenges might affect their company’s bottom line in the near future, if adequate solutions are not found. For example, more than half of survey respondents say that “insufficient talent within the organisation as a whole” might harm their company financially within the next 12 months. Significant proportions also worry about “insufficient leadership talent”, “lack of alignment of individual and business objectives” and “low employee satisfaction”.

The HR component of the corporate strategy is clearly a pressing business issue for CEOs. “For me,

human resources are the nuts and bolts of the business,” says Philippe Gas, CEO of Euro Disney. “We have close to 15,000 workers who have to make the experience of the guests at our theme parks as unique and special as possible. Their motivation is absolutely vital to our success. They must feel empowered, and understand how their efforts fit into the overall strategy of the company.”

The need for HR to demonstrate its people expertise is perhaps particularly acute at present, given the economic constraints in much of the



Western world. “Organisational weaknesses can be masked in a boom period,” says Lucy Dimes, CEO of UK and Ireland operations at Alcatel-Lucent, a global telecommunications equipment company. “However, when the environment is tough, you need to get the most out of people in order to keep

the business moving forward.”

To compound current difficulties, companies now often need to get more out of fewer people. Recent Economist Intelligence Unit research found that more than a third of companies have reduced their workforce over the last three years. ■

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Lucy Dimes, CEO, UK and
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Alcatel-Lucent

2

Strategic influence of HR: the current reality

“Each company has equal access to natural resources and technology; having top talent that is better than your competitors’ is the differentiating factor.”

”

Richard Beatty, Professor of Human Resource Management, Rutgers University

Although there is clearly a need for HR to assist in the vital people dimension of corporate strategy, only a bare majority of CEOs believe that the head of HR is a key player in strategic planning. However, a significantly higher proportion (70%) of CEOs want the head of HR to be a key player.

“Leaders know they need to understand how people can help the organisation to succeed, and that the head of HR can really help to provide that understanding,” says Richard Beatty, professor of human resource management at Rutgers University. “Each company has equal access to

natural resources and technology. Having top talent that is better than your competitors’ is the crucial differentiating factor in today’s world.”

Why is there such a substantial difference between the current reality of HR involvement and the ideal scenario suggested by CEOs? As there is no sign from the survey that heads of HR are holding themselves back (more than two-thirds want to be a key player, according to CEOs), either there is some ambivalence on the part of HR or their senior executive colleagues might be denying them access to important debates about



Wanted: CHRO to take a seat at the table

(% CEO respondents)

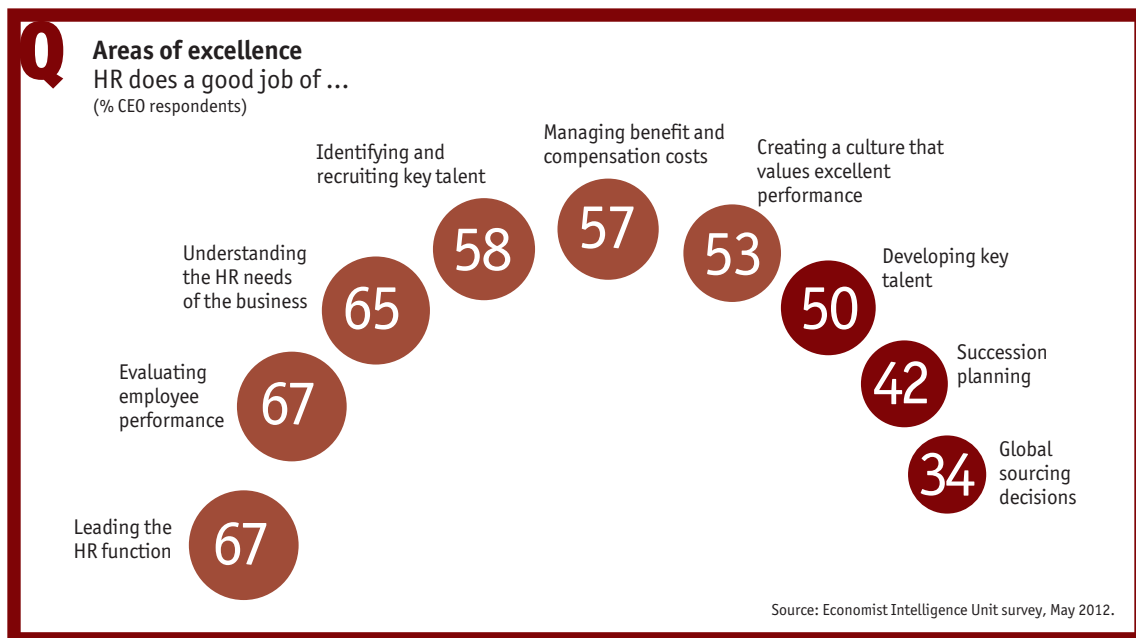
How involved is the head of HR in strategic planning in your organisation?



How involved do you want the head of HR to be in strategic planning?



Source: Economist Intelligence Unit survey, May 2012.



the company's strategy.

Perhaps heads of HR are not being included in strategic planning because doubts linger about whether they have the requisite breadth of business knowledge to participate productively. A significant proportion of respondents believe that their heads of HR are overly preoccupied with a narrow HR agenda. Forty-one percent think their HR heads are "too focused on processes and rules" and 37% say that they don't "understand the business well enough".

"If heads of HR see the corporate strategy only through the lens of their specialism, most CEOs will find this irritating," says Professor Paul Sparrow, director of the Centre for Performance-Led HR at

Lancaster University. "Being too focused on minutiae, too negative, or warning about the timescale being too tight, will make them unpopular. They need to retain a balance between the detail of their HR knowledge and a broader, commercial approach."

Second, their performance in areas outside the confines of the HR function is often deemed to be unspectacular. Whereas more than two-thirds of CEOs think their head of HR is doing a good job at managing the HR function, only a minority believe that he or she is achieving a similar level of performance in strategic issues such as "succession planning", and just over half say the same about "developing key talent". ■

3

CEO and the head of HR:
the personal relationship

“CEOs tend to be creative and full of ideas, but they sometimes need a reality check.”

Paul Sparrow, Director of the Centre for Performance-Led HR, Lancaster University

The survey reveals that CEOs are considerably more likely to think their relationship with their head of HR is close and trustful—and value that relationship highly—than they are to believe the head of HR is playing a key role in strategy. This discrepancy is most evident in larger companies. In companies with more than 5,000 employees, 75% of CEOs say their relationship with the head of HR is close and trustful and 76% hail it as one of their most valued. However, only 53% report that the head of HR is a key player in strategic planning.

The head of HR is clearly proving useful to the CEO in ways unrelated to corporate strategy. What exactly these are started to become apparent during our one-to-one interviews with CEOs in major companies, and with academic experts. They all stem from the notion that the head of HR will have high emotional intelligence, that he or she has a developed perceptiveness about people, and is a good communicator.

According to Professor Sparrow, the head of HR often acts as a valued listener and adviser for the CEO. “The relationship works best when the head of HR becomes an informal sounding board, offering practical feedback on the CEO’s thoughts,” he says. “CEOs tend to be creative and full of ideas, but they sometimes need a reality check.”

This assessment can be employed not just to refine and improve the ideas of CEOs, but also to hone their overall performance. Simon Henry, CFO of Shell, says that it is both his job and that of the head of HR in his organisation to offer constructive

criticism to the CEO. “One of our jobs is to provide feedback to the CEO himself about how his leadership style affects the executive committee,” he says. “We both have a duty to tell him how it really is.”

This feedback is particularly important given the reticence of many employees to criticise directly those who are above them in the hierarchy. The head of HR may therefore be able to obtain more accurate insight into what the organisation as a whole is thinking about the CEO. “People might not want to tell me what I could do better,” says Ms Dimes. “The head of HR gets a different answer than I would. He also meets a broader range of people throughout the organisation than I do, and they might tell him what I could improve on.”

The CEO of a large organisation is the object of constant scrutiny from the media, investors and employees, and is expected at all times to look and sound the part. These demands entail considerable personal pressure. The CEO may hanker after someone close at hand in the working environment with whom he can relax and let his guard down, albeit for a brief period. This role of informal executive coach is often filled by the head of HR.

“Inside the board meeting, it is difficult for the CEO to say that he doesn’t know, or that he has doubts over a strategy,” says Professor Sparrow. “Outside the meeting, he can honestly talk through issues he needs to overcome in his own mind in order to do his job better.” ■

4

Executive team management

“
We need the head
of HR to sit at the
executive
committee table.
”

Zoe Yujnovich, CEO, Iron Ore
of Canada

A significant proportion of CEOs often talk about executive performance and development with their head of HR. This seems to be particularly true among the largest companies in our survey (those with annual revenue in excess of US\$10bn—see sidebar on next page).

It seems that the CEO frequently entrusts the head of HR with the task of ensuring that all individuals in the senior management team are working effectively, and that the chemistry of the team also works well. “We need the head of HR to sit at the executive committee table,” says Zoe Yujnovich, CEO of Iron Ore of Canada. “Senior management sets the tone for the whole organisation; the head of HR sees to it that the team is periodically refreshed with new blood, and interpersonal relationships continue to function properly despite the necessary robust discussions we must have about the company’s strategy.”

Dinesh Paliwal, CEO of Harman International, a global audio and automotive electronics technology company based in Connecticut, reveals that his head of HR can act as a vital bridge

between the CEO and the executive committee. “He not only needs to align people from different backgrounds, different nationalities, and with often very different personalities”, he says. “But he can also clarify my ideas to those who haven’t fully understood them, and perhaps, in a very sensitive way, make me aware if one [member] of the executive committee has a personal issue that is temporarily affecting their work.”

Not only may the head of HR be responsible for recruitment into the team; he or she may also act as troubleshooter or henchman, removing underperforming or recalcitrant individuals, thereby preventing team dysfunction. Richard Beatty of Rutgers University believes that many CEOs see the head of HR as a loyal colleague who will smooth the waters for them. “Many heads of HR may be very good at strategy, but many others will be popular with the CEO simply because they have befriended him,” he says. “They are often a long-term partner, they get their CEO out of trouble if he or she has upset anyone, and get rid of troublesome people from the organisation with a minimum of fuss.” ■

Large companies and hurried conversations

When it comes to the role of the head of HR, there are significant differences between very large companies and their smaller peers. Among the largest companies surveyed by the Economist Intelligence Unit in May 2012, those with revenues of more than US\$10bn, discussions between the CEO and the head of HR revolve around executive concerns much more than they do in smaller organisations. Seventy-two percent of CEOs in the largest companies say they “often” discuss executive performance and development with the head of HR compared with 34% in all other companies. One-half of respondents in the largest companies say they “often” talk about executive succession, considerably more than the 14% in all

other companies. For executive compensation, those percentages are 39% and 18%, respectively.

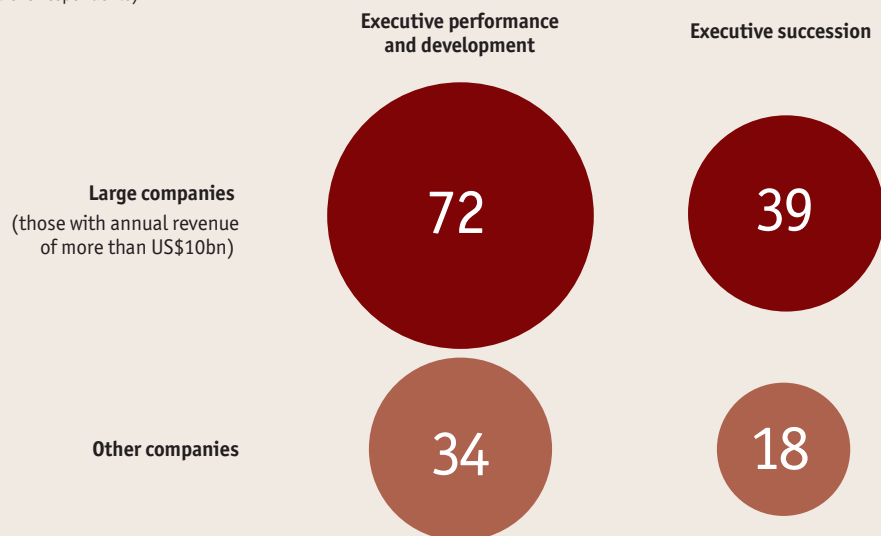
CEOs from the largest companies also talk about employee satisfaction, overall employee compensation and diversity with their head of HR more often than their counterparts from smaller companies do, although the difference in the level of frequency is not as great as it is for executive concerns.

These frequent discussions occur despite the fact that 39% of CEOs in these largest companies spend less than five hours a month with their head of HR, either in a one-to-one or group setting, and a further 22% spend less than ten hours with them. ■



Not only brass tacks

Topics most frequently discussed in meetings between CEOs and head of HR
(% CEO respondents)



Source: Economist Intelligence Unit survey, May 2012.

5

Conclusion:
best practices for CHROs

“As a CEO, you have to open up, be honest about your own weaknesses, and show your head of HR that he should never be scared of saying what he thinks; the relationship takes courage, communication and truth—just like a marriage.”

”

Dinesh Paliwal, CEO, Harman International

CEOs are clearly worried about the impact of HR issues on company performance. They also want the head of HR to play more of a strategic role in handling these issues. Currently, however, concerns over their commercial awareness and some aspects of their performance are preventing more heads of HR from exerting this strategic influence.

Heads of HR would perhaps be best advised to increase their influence, and that of the overall HR function, by continuing to be useful to the CEO in the ways outlined above. This is surely human nature: if the CEO has repeatedly relied on the head of HR for certain important matters, and they still see eye to eye, he or she is more likely to invite the HR head to participate in other areas as a matter of course.

“If the relationship between these two individuals is good, then CEOs tend to give the HR function more licence without interfering too much, and there is less negative scrutiny of the HR function in general,” says Professor Sparrow.

However, this relationship will not be fostered overnight. Both the CEO and the head of HR need to strive to make it work. “You cannot just expect it to happen automatically,” says Mr Paliwal of Harman. “As a CEO, you have to open up, be honest about your own weaknesses, and show your head of HR that he should never be scared of saying what he thinks. Like any great partnership, the relationship takes courage, communication and truth—just like a marriage.”

For their part, heads of HR may further their influence in the following ways:

- **Developing a personal relationship.** Heads of HR can demonstrate their value by acting as a sounding board to the CEO’s ideas, offering feedback on the CEO’s performance and, in general, becoming a confidante and informal executive coach.
- **Ensuring that the senior executive team is working effectively as a unit.** The CEO frequently entrusts the head of HR with the task of ensuring that all individuals in the senior management team are working effectively, and that the chemistry of the team also works well. Doing this job well will make the head of HR even more indispensable to the CEO.
- **Impressing colleagues with suggestions on how the organisation can be prepared to implement its strategy.** The head of HR needs to exhibit an understanding of the wider commercial business, thereby shedding its image of knowledge limited to the narrower, HR elements.
- **Pushing to be included on the Board of Directors or Executive Committee.** This is how the head of HR develops relationships and gains relevancy. At the very least, demand more time together, in order to have the opportunity to explore higher-level issues.

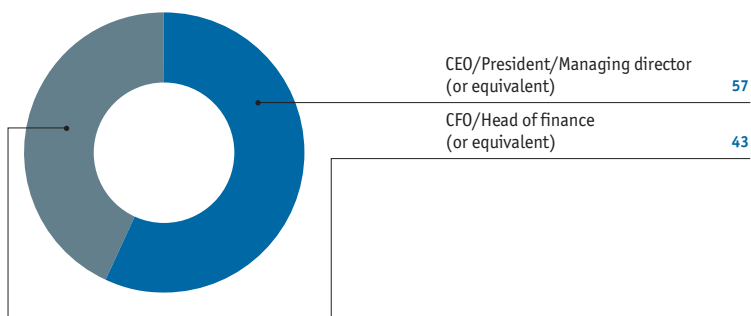
- **Focusing on the right topics.** The head of HR needs to probe the issues that really matter to both the CEO and CFO—the ones they are concerned may harm the company financially. Demonstrating creative and proactive problem-solving on these issues will demonstrate clearly the value of the head of HR.
- **Taking initiative.** Our survey revealed that both the CEO and CFO want the head of HR to be a partner in developing the people strategy. CHROs should not assume they are deliberately excluded—they need to take initiative to be included.

Following these guidelines should enable HR to continue to increase its impact in modern organisations. “Showing the value of HR has not always been easy,” says Mr Gas of Euro Disney, who himself spent several years in senior HR roles, a highly unusual route to the top position. “But there is a gradual realisation that it needs to be more than just a support function. Slowly but surely, companies are realising the importance of people, and the role HR can play in strategy.” ■

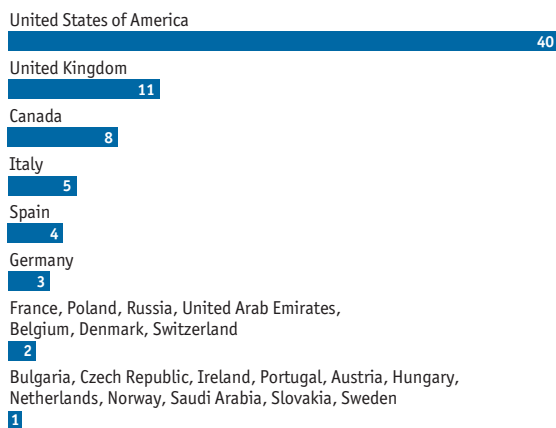
Appendix: survey results

Percentages may not add to 100% owing to rounding or the ability of respondents to choose multiple responses.

What is your role in your organisation? (% respondents)



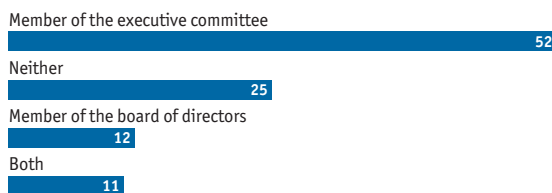
In which country are you personally located? (% respondents)



In which region are you personally located? (% respondents)

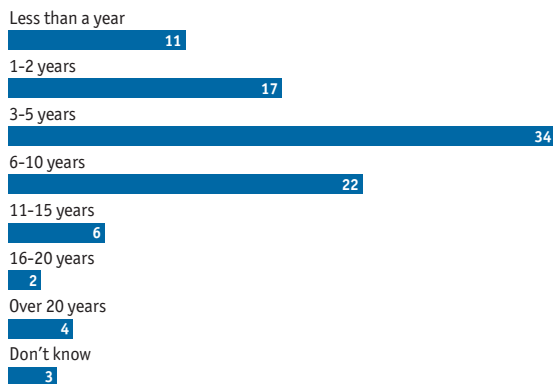


What position does the head of HR (or CHRO) in your organisation occupy? (% respondents)



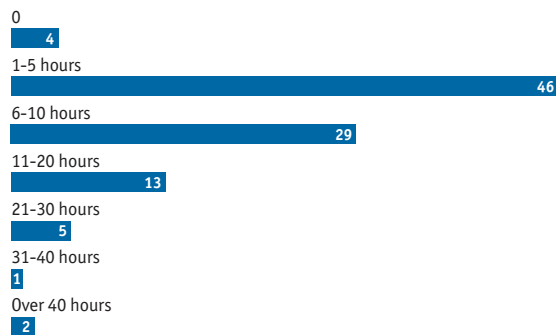
How long has the head of HR been in his or her role?

(% respondents)



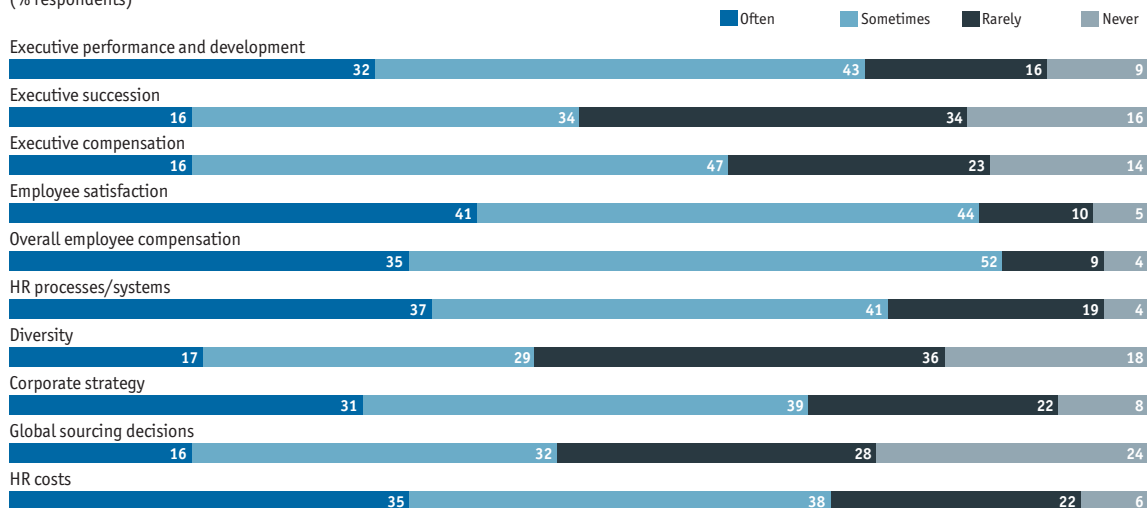
In an average month, how much time do you spend meeting with your organisation's head of HR (either one-on-one or in a group setting)?

(% respondents)



What is discussed during these meetings referred to in the previous question.

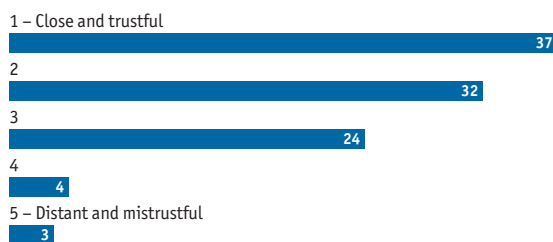
(% respondents)



How would you describe your relationship with the head of HR?

Rate on a scale of 1-5, where 1=Close and trustful and 5=Distant and mistrustful.

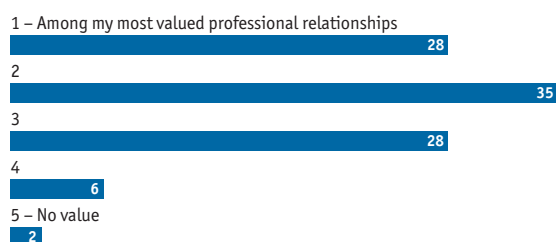
(% respondents)



How highly do you value your relationship with the head of HR?

Rate on a scale of 1-5, where 1=Among my most valued professional relationships and 5=No value.

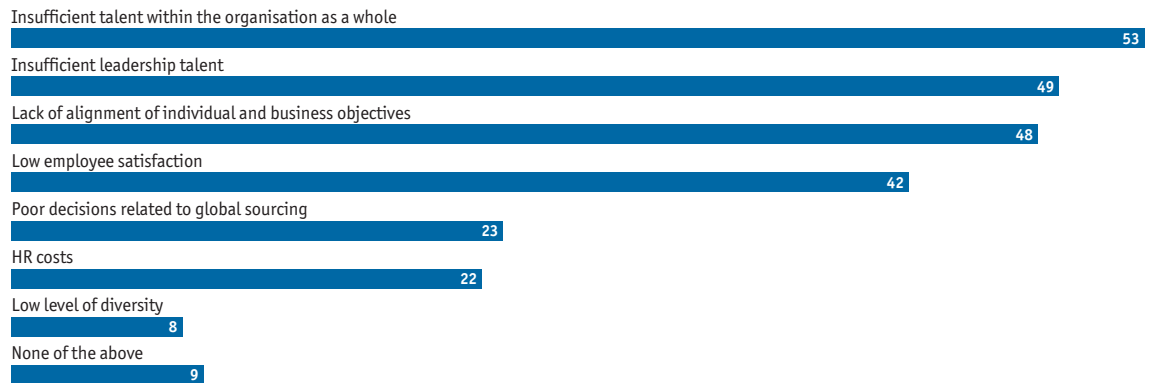
(% respondents)



In your opinion, which of the following might harm your organisation financially over the next 12 months?

Select all that apply.

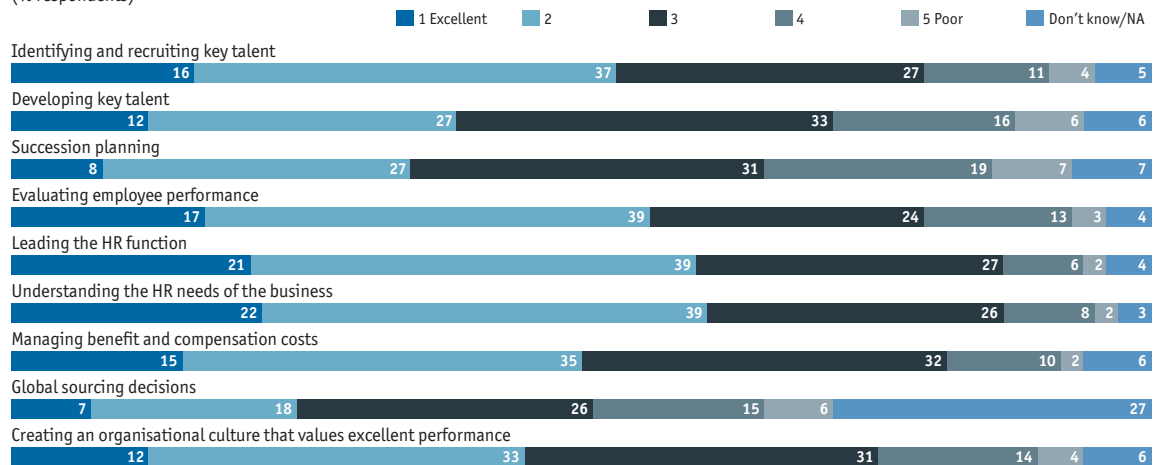
(% respondents)



How would you rate the head of HR at your organisation in the following areas?

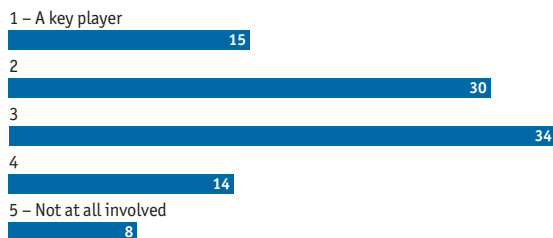
Rate each on a scale of 1-5, where 1=Excellent and 5=Poor.

(% respondents)



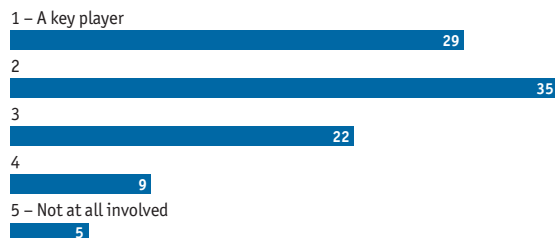
How involved is the head of HR in strategic planning at your organisation?

Rate on a scale of 1-5, where 1=A key player and 5=Not at all involved.
(% respondents)



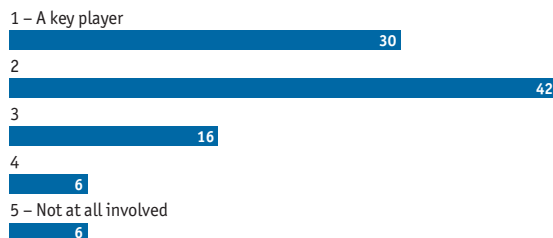
How involved does the head of HR want to be in strategic planning, in your view?

Rate on a scale of 1-5, where 1=A key player and 5=Not at all involved.
(% respondents)



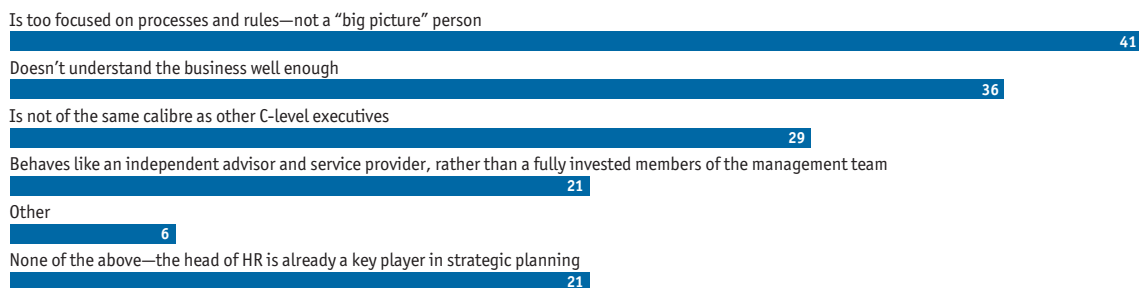
How involved do you want the head of HR to be in strategic planning?

Rate on a scale of 1-5, where 1=A key player and 5=Not at all involved.
(% respondents)



What are the obstacles, if any, to the head of HR taking a greater role in strategic planning?

Select all that apply.
(% respondents)



Do you and the head of HR agree on the organisation’s people strategy (eg, what to prioritise, how to implement the strategy, how to manage costs)?

(% respondents)



In which area do you work in greatest harmony with the head of HR?

(% respondents)



In which area do you work in greatest discord with the head of HR?

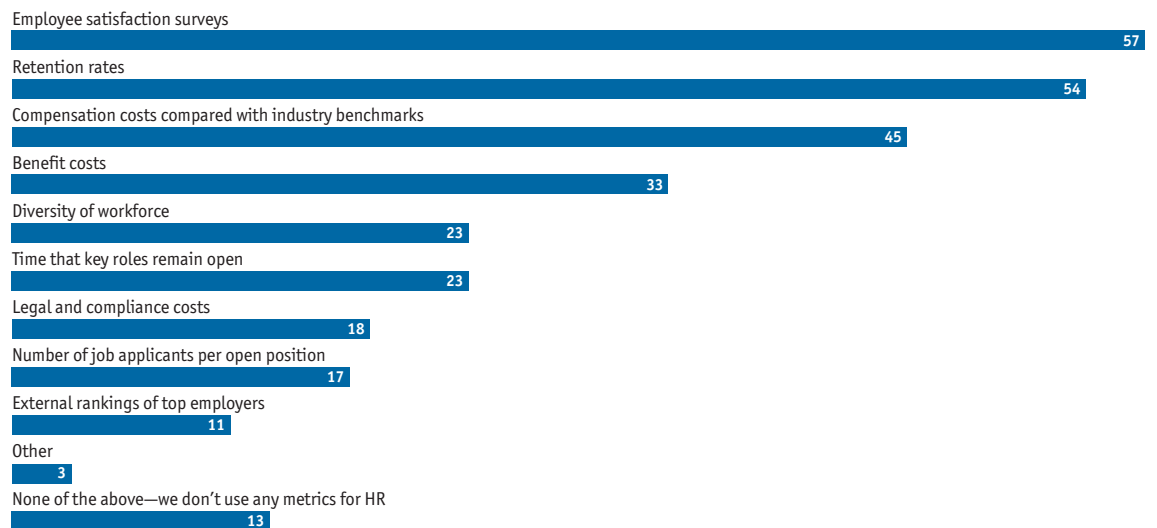
(% respondents)



Which of the following metrics, if any, does your organisation use to measure the value of the HR function?

Select all that apply.

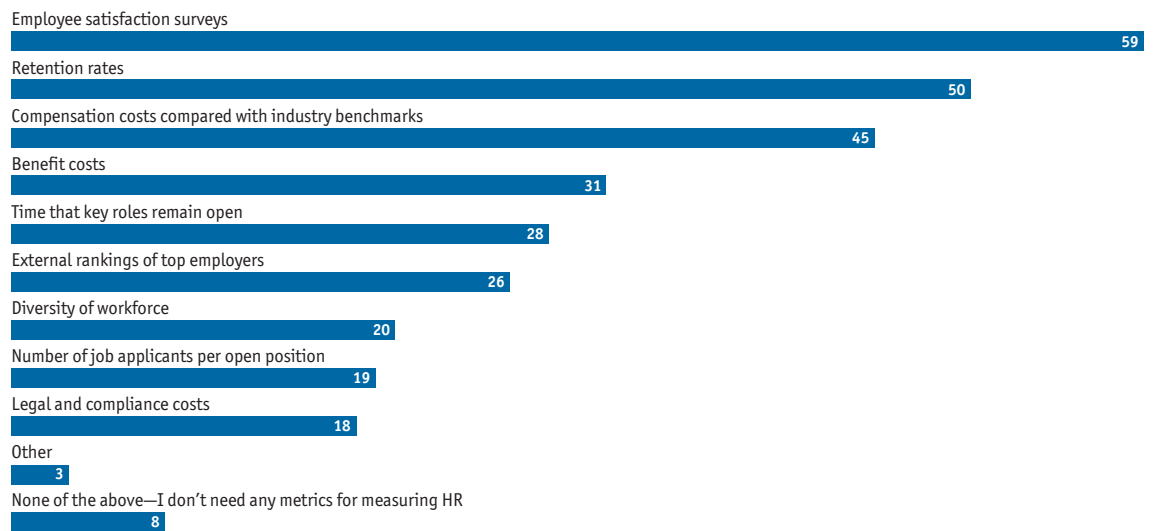
(% respondents)



Which of the following measures of the value of the HR function would be most useful to you?

Select all that apply.

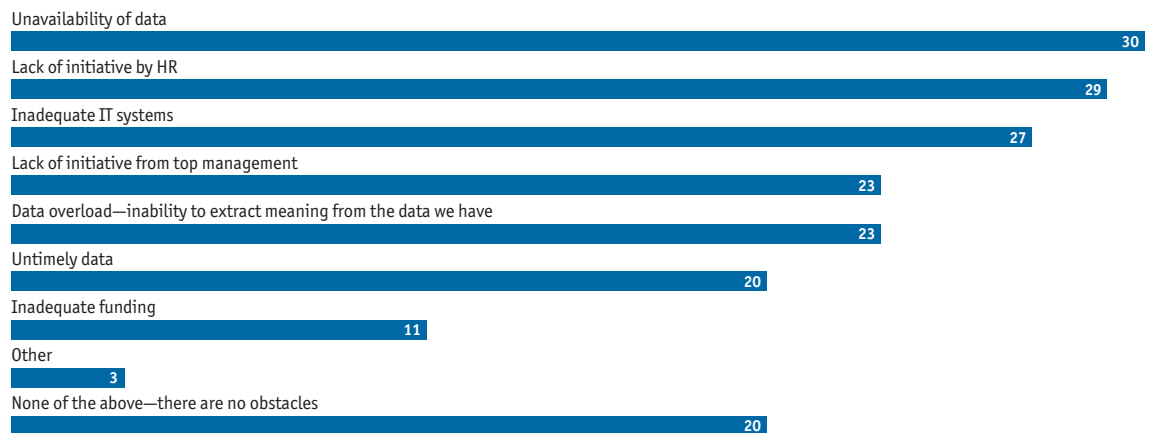
(% respondents)



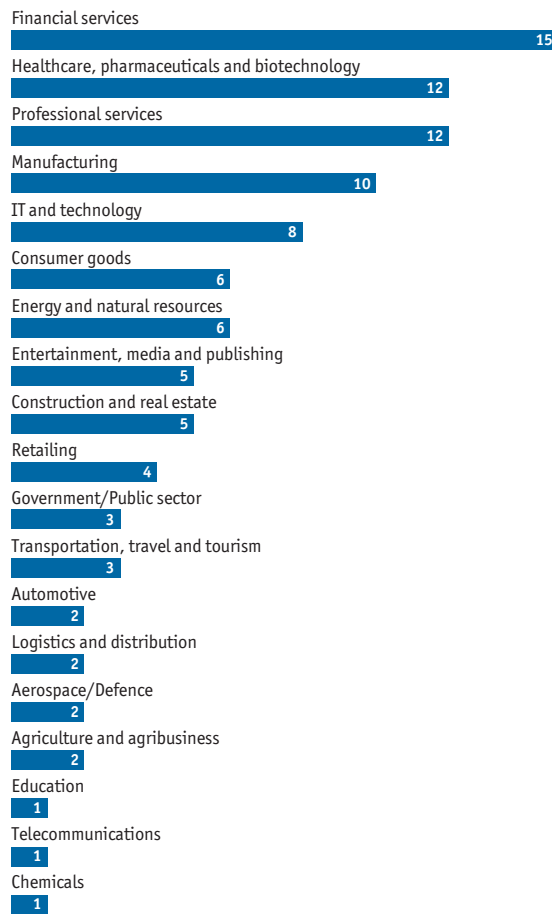
What are the obstacles, if any, to measuring the value of the HR function at your organisation?

Select all that apply.

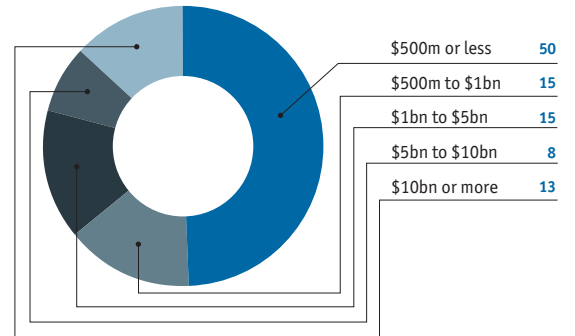
(% respondents)



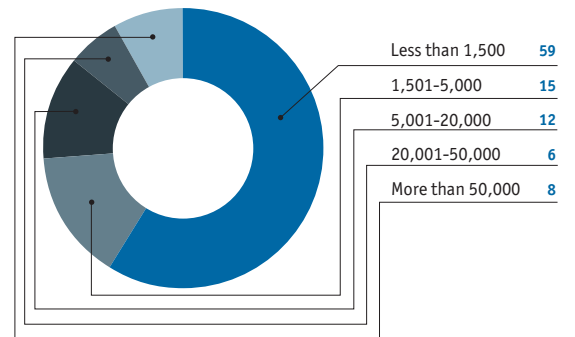
What is your primary industry?
(% respondents)



What are your company's annual global revenues in US dollars?
(% respondents)



What is the number of people employed at your organisation?
(% respondents)



Whilst every effort has been taken to verify the accuracy of this information, neither The Economist Intelligence Unit Ltd. nor the sponsor of this report can accept any responsibility or liability for reliance by any person on this white paper or any of the information, opinions or conclusions set out in the white paper.

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