



# Developing the Next Generation of CHROs

Highlights from the “Learning to Fly” Study

## A New Normal

The era of steady state organizations is over.

The economic highs and lows of the past decade have made firms realize that they live in a Volatile, Uncertain, Complex, and Ambiguous (VUCA) world where they must continuously evolve to remain relevant.

Many organizations’ HR functions have responded to this challenge, and there is recognition of the fact that the CHRO is a critical stakeholder in defining the strategy of a firm. This is evidenced by the fact that CHROs are often the fourth or fifth highest paid C-suite member after the CEO. At the same time, there seems to be a widening gap between the expectations of what a CHRO brings to the table and the skills and capabilities of candidates in the pipeline, especially those from within HR.

Aon Hewitt’s advisory group of clients, the Human Capital Leadership Council (HCLC), therefore asked the question: **“Is HR developing its own leaders to tackle the challenges and evolving expectations of a dynamic environment?”**

The “Learning to Fly” study is a response to that question. We interviewed 45 CHROs around the globe about their journey to the CHRO position. Our study focused on five areas future CHROs need to develop to be successful in their role (see graphic).

### Future CHRO Capabilities



#### **Leading Up**

Understanding the expectations of the board and the CEO

#### **Leading Across**

Successfully working with C-suite peers

#### **Leading Externally**

Building relationships outside the organization

#### **Leading the Function**

Revisiting your HR strategy and reprioritizing HR programs

#### **Leading Self**

Interpersonal skills found to be most important to success as a CHRO

# Preparing for the Role

## Diversity of experiences is critical

A **majority** of the participants in our study **did not know they would be tapped for the CHRO position**, and many of them thought they got into the role earlier than expected. Upon being asked what their preparation for their role was, all CHROs spoke of how diversity of experiences was a key factor in their success.

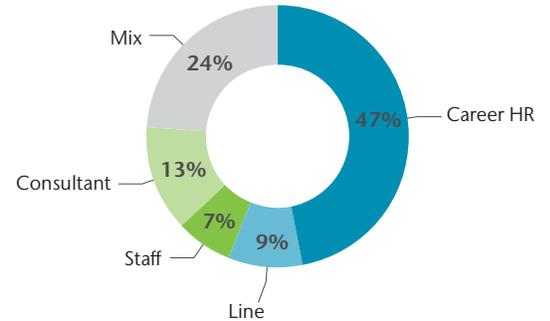
**Fewer than half of the CHROs came from a pure HR (“Career HR”) background.** Those who did took up multiple roles in HR in a planned manner, or sought out opportunities to work in firms that are “incubators” for future CHROs (see callout below).

Additionally, these CHROs spoke about the need for **developing a “global mindset.”** The most practical and tangible way to attain this is to gain global exposure by living and working abroad. But there are other methods as well, such as **working with and leading global teams and initiatives.**

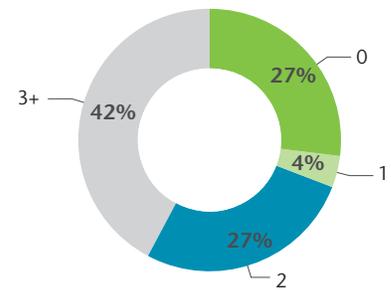
With the need for business exposure becoming a necessary part of the CHRO role, many of our participants chose to take a **rotation or assignment in a line role** to build their business and commercial acumen.

Also, **changing industries** has an important role to play in expanding horizons. Our data showed that CHROs who changed their industries were better prepared for their roles, and rose to the CHRO position more quickly than their industry peers who did not.

Background of CHROs



Number of times CHROs changed their industries



## PepsiCo: An incubator of future CHROs



- ▶ 6 of the 45 CHROs surveyed were ex-PepsiCo
- ▶ PepsiCo asks people to state their career ambitions and matches them with available opportunities within the organization
- ▶ Fresh MBAs are given factory HR responsibility and expected to work on “everything and anything” HR
- ▶ Fosters right-to-left thinking from the start—begin from a business issue and work backwards to an HR solution

# Leading Up

## Have a point of view

As the CHRO, two relationships critical for success are those with the board of directors and with the CEO.

The board and the CEO set the overall strategy for the organization, and look to the CHRO **to support that strategy from a human capital standpoint**. The role of the CHRO is more nuanced, however. It is **not merely to follow orders**. If the board/CEO suggests a strategy that will have negative HR repercussions or goes against the employer brand, the CHRO must call that out and suggest alternatives.

Similarly, the CHRO must have his or her business hat on and actively keep in touch with current industry trends, to make sure that the **HR programs and policies are forward-looking**.

The CHRO must work toward building an organizational culture that will allow the firm to weather unforeseen disruptive events by **building agility and adaptability in the workforce**.

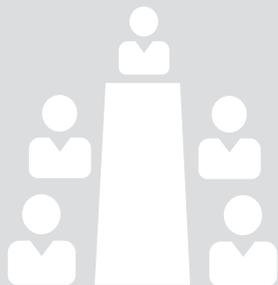
The **unique position** of the CHRO is to **advise** the CEO about his or her **people** (as individuals) and the operation of the **leadership team** (collectively).

The CHRO must **bring a blend of technical knowledge and soft skills**. The technical knowledge allows him or her to establish credibility, while the softer skills enable successful working relationships and the management of stakeholder expectations and perceptions. These soft skills also build confidence with stakeholders so issues are handled professionally and capably.

## Expectations of the board and CEO from the CHRO



Importance of board exposure and executive compensation



66%

of CHROs had prior board exposure

84%

of CHROs highlighted executive compensation as a key requirement



While recruiting, firms often look for a candidate with prior board experience or someone who has held the CHRO position elsewhere; this can lead to a circulation of CHROs from one company to another and an unwillingness to consider internal candidates or those who have not previously held a CHRO role.

# Leading Across

## Be the honest broker

The next set of relationships the CHRO must maintain is with the other CXOs in the firm.

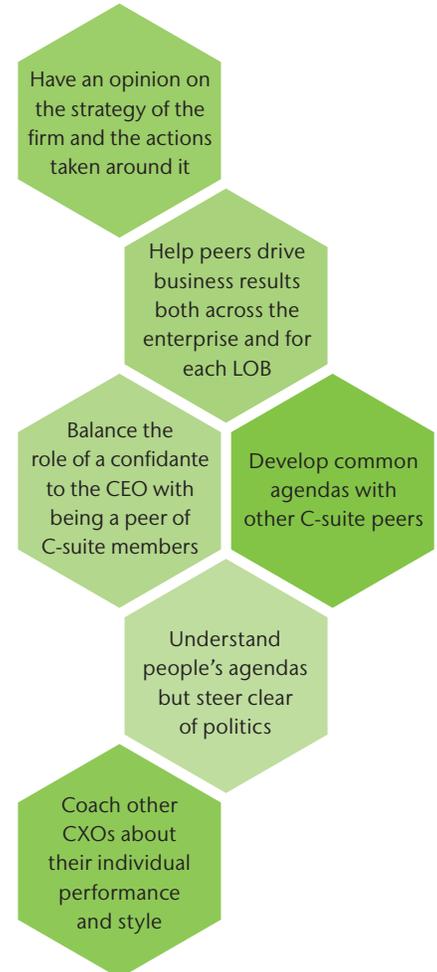
The CHRO must manage incompatible agendas, interpersonal conflict, and the **dynamics of being a peer** to the C-suite while having a **unique relationship with the board/CEO**. S/he is called upon by these stakeholders to give objective advice about the performance of other CXOs, as well as aspects of organizational fit.

The CHRO should play the role of a **coach** to other CXOs, and also that of a **sparring partner** off whom they can bounce ideas. Rather than becoming a go-between for the CEO and other CXOs, the CHRO must coach both parties to have an open and honest dialogue.

Though it's important to have a good relationship with peers, some distance may also be necessary. CHROs need to give **objective developmental feedback** to peers.

The CHRO must continue to remain the **employee champion** while **building trust** with the C-suite through his or her actions.

## Expectations of peers in the C-suite



## Unique relationship with the CFO

- ◆ CHRO and CFO handle the two most important kinds of capital in the organization: human capital and financial capital
- ◆ CHRO and CFO have unique roles in that they can advise from a point of impartiality and objectivity
- ◆ 65%–70% of the operational cost of a services firm is people—people's actions can put an organization's financial strategy at risk
- ◆ Boards and CEOs expect the CHRO and CFO to present a common agenda



# Leading the Function

## Adapt HR strategy to a context

The CHRO must guide the HR function on prioritizing the areas that will yield results in a given organizational context.

Also, in a VUCA environment, the demands of the organization on the HR function continuously evolve. There is, therefore, an increasing need for **change management expertise**, and an expectation that the function be a source of change management support.

In addition, there is an emphasis on using **data** to ask the right questions and using **analytics to establish credibility** with internal stakeholders and the business.

Since the contexts of organizations are vastly different, the CHRO must respond differently. In our study, we noticed **three distinct kinds of organizational contexts** that CHROs must tackle. Depending upon the context, the CHRO could be a **founder, a director, or a transformer**.

While the CHRO is fully expected to demand performance from the HR team, s/he must take ultimate responsibility for the team's success or failure.

## Expectations from the HR function



## Specific actions based on organizational context

**Founders:** HR has to build credibility in the system. CHRO is trying to establish/reestablish the relevance of HR in the firm.



- ▶ Work on 2 to 4 HR initiatives that will have maximum impact
- ▶ Focus on execution and measurement to report results of initiatives

**Directors:** HR already has a seat at the table, but the board/CEO thinks it can drive more value. CHRO's role is to align, optimize, streamline, and prove that the HR function can perform efficiently and create even more impact.



- ▶ Define a clear strategy and plan, and align with the executive team on the plan and success measures
- ▶ Break down silos and drive cross-functional work with clear outcomes

**Transformers:**

The organization is undergoing massive transformation due to a strategic shift, merger, or entry into new markets. The CHRO is leading the organization's transformation as a member of the executive team.



- ▶ Use "culture" as an anchor through rapid VUCA changes
- ▶ Create a change plan to navigate transitions and mitigate risk

# Leading Externally

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## Voice of the firm to the outside

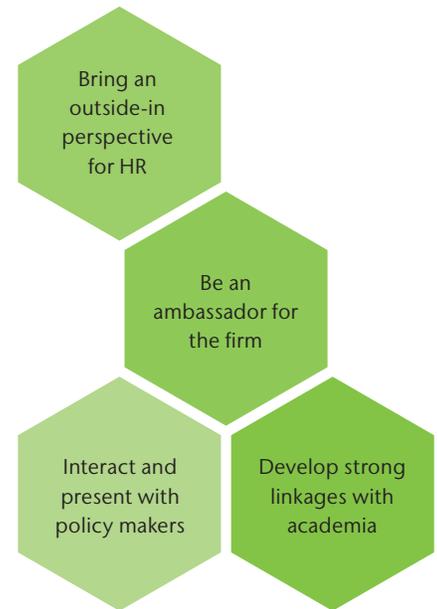
In a connected world, all leaders of the organization, including the CHRO, are expected to be the **face of the firm to the external world**.

Additionally, CHROs need to maintain relations with **government agencies** (especially for **regulated industries**) and other bodies that may be helpful for keeping abreast of policy updates.

**Networking with peers** is also important for the HR function—a lot of learning transpires through bouncing ideas off others in a similar context or industry.

While only a **few** of the **CHROs** that we interviewed had **interactions with customers** as a part of their role (more so by virtue of having led certain relationships in the past), they all spoke of the importance of external networking and connections to their roles.

## Expectations of the organization



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### Regulators: Bane or boon?

- ◆ Since the Great Recession, regulatory oversight has increased, especially in industries such as financial services
- ◆ Regulators monitor the risk culture of organizations, but the processes can be cumbersome
- ◆ Rather than looking at them as an interference, some organizations use regulators as sounding boards for risk processes and to effectively manage the organization's risk culture



# Leading Self

## Blend the soft with the hard

As leaders grow in an organization, their **soft skills and competencies** become **more important** than their technical skills, which they have demonstrated consistently.

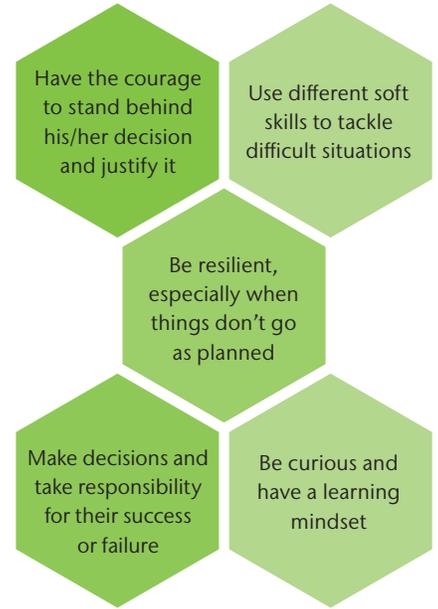
CHROs are expected to **model the behaviors** that the organization expects of others. Additionally, given the VUCA nature of the environment, it is essential that CHROs have skills that will see them through **different kinds of business contexts**.

Success in all the other areas spoken of so far—Leading Up, Leading Across, Leading the Function, and Leading Externally—depends upon the CHRO’s soft skills.

If the CHRO does not possess some of the soft skills required for performing effectively, it is important for him/her to build a **team** that has **complementary skill sets**.

We asked the participants to rate the **most important behavioral and functional competencies** required of them, and where **their capability levels** were when they first took on the CHRO role, on a scale of 1 (None) to 5 (Expert). The **two areas of concern** are the low self-ratings on **business knowledge and executive compensation**.

## Expectations of the organization



### CHRO Top Behavioral Competencies

### CHRO Self-Rating

### CHRO Top Functional Competencies

### CHRO Self-Rating



# Making It Real

## Suggested actions for CHRO aspirants

**Assess your “fit” into an organization before joining it:** It is easy to be enamored by the brand of a firm, or to be excited by the scope that a new role offers. It is important to step back and think objectively about the aspirant’s fit as an individual into an organization’s culture. Also, the aspirant must assess whether the board and CEO consider HR a true priority. Fighting against the tide is difficult.

**Have a structured way of translating business strategy into HR:** It is essential to spend time understanding the context of the organization, speaking to key stakeholders and influencers (who may not always hold a position), and interacting with customers of the HR function. CHRO aspirants should practice doing this even at a business unit or functional level so they can fine-tune and scale the approach as they take on the CHRO role.

**Cultivate the ability to switch between a “relationship” mode and a “numbers” mode:** Different stakeholders, including members of the board, the CEO, and other CXOs, may require the CHRO to engage with them in different analytical and technical roles. To build a social connection, the CHRO must balance use of logic and numbers with soft skills.

**Coach peers to handle their own issues:** At times, peers may expect the CHRO to be the go-between for discussions with the CEO and/or other peers. In such cases, offer instead to coach them on having difficult conversations and enable them for the future.

**Maintain a network:** To keep abreast of changes in the business, the industry, and the HR landscape, it is important to plan periodic (at least once a quarter) formal and informal interactions with peers (inside and outside the organization). It may also be beneficial to create opportunities to bring external HR experts together to introduce an outside-in perspective to your HR function.

**Gain board exposure:** Aspirants should look for opportunities to get direct interaction with the board through participation in strategic interventions (such as succession planning), or through a stint in the executive compensation field. Participation in the pre-work for a compensation committee meeting could help as well.

**Self-awareness is key:** It is important to be aware of strengths and areas of development, especially in the context of the organization. Through assessment tools, define an action plan and work on it with support from a manager and mentor.

## 70-20-10 approach



To develop the skills of future CHROs, CHRO aspirants should follow an approach that focuses more on real-life learning than on mere academic knowledge.



### Experiential learning (70%)

- ◆ Lead strategic initiatives
- ◆ Ask for special assignments/rotations/global exposure
- ◆ Suggest action learning projects with your supervisor



### Networked learning (20%)

- ◆ Network externally through forums and conferences
- ◆ Network internally through groups and learning communities
- ◆ Find coaches/mentors



### Formal training (10%)

- ◆ Improve in technical areas such as executive compensation and analytics
- ◆ Listen to podcasts, webinars on industry and functional trends
- ◆ Receive training on systems

# HR, Heal Thyself

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## It's not the individual's journey alone

The number of people taking on the CHRO position without any background in the function is alarming. While HR helps other parts of the organization in the areas of succession planning and leadership development, it hasn't done the best job of developing its own leaders.

HR must work on creating an **environment conducive** to the growth of future CHROs from both within and outside the function. It must also look for ways to help CHRO aspirants pick up **critical experiences** that matter in the CHRO position.

## HR's role in developing the next generation of CHROs



- ◆ Identify high-potential HR leaders (including those outside the function)
- ◆ Look for possibilities for these leaders to get board exposure
- ◆ Make a menu of rotational, cross-functional, and global opportunities and map individual's career aspirations to developmental opportunities
- ◆ Plan for HR skills required 3–5 years from now, and work backwards

# What the Future Holds

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## Trends that CHRO aspirants must prepare for

As we look to the future, we asked participants about the key trends on a three- to five-year horizon that CHRO aspirants should start picking up today.



Making decisions based on data and analytics



Being the architect and assessor of shifts in organizational culture



Proactively mapping organization capability needs to the future strategy of the firm



Playing the role of an internal and external talent scout



Assessing the impact of technology on HR as well as on the organization



Charting organization-specific HR strategies rather than following the herd

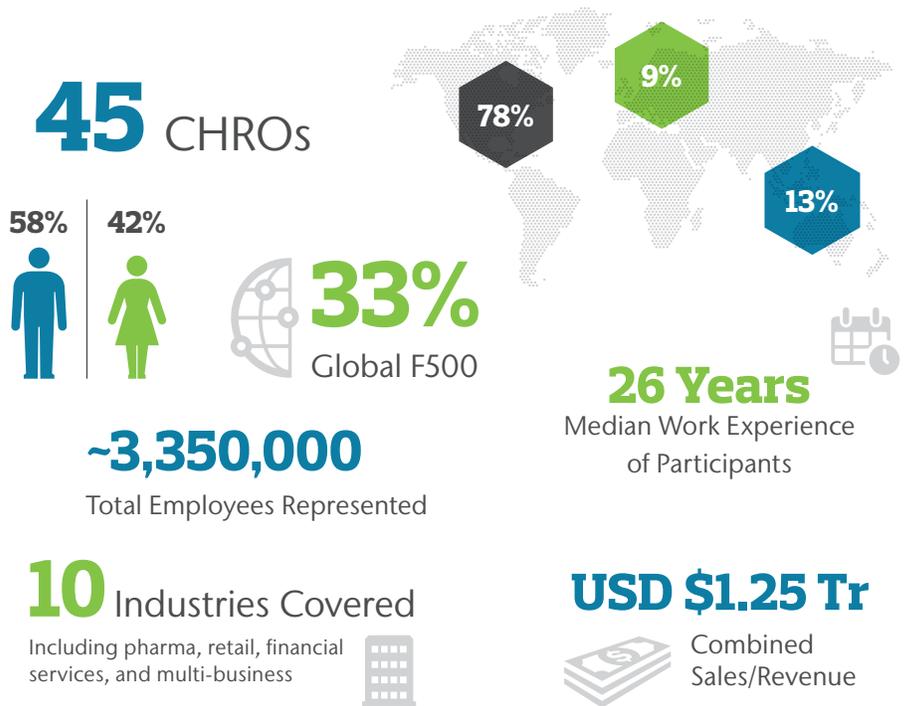
# Study Background

The 'Learning to Fly' study was a collaboration between the Performance, Reward & Talent practice, and the Aon Strategic Advisors and Transaction Solutions practice.

## Participant demographics

The 45 participating CHROs currently head up organizations in the U.S., Europe, Asia, and Australia, allowing them to share HR career viewpoints from a global perspective. The median work experience of the CHROs was 26 years, giving breadth and depth to the ideas and strategies captured in the report.

In addition, the organizations represented in this report have remained highly competitive fiscally; one-third of the companies represented in the report are listed on the Global Fortune 500. Collectively, these organizations represent \$1.25 trillion in annual revenue, with 3.35 million employees managed by the CHROs.



## A Special Thanks to Our Participating Organizations

3M Company

AbbVie Inc.

American Electric Power Company

Aon plc

The Bank of New York Mellon Corporation

Baxter International Inc.

The Boeing Company

Brightstar Corp.

C.H. Robinson Worldwide, Inc.

CDW Corporation

Chanel Inc.

CIGNA Corporation

CVS Health

Eli Lilly and Company

Essar Group

The European Bank for Reconstruction & Development

EXL Service.com LLC

Fluor Corporation

FOXTEL

Future Fund Management Agency

Google Inc.

HD Supply

The Hershey Company

Hoerbiger

Humana Inc.

J.P. Morgan Chase & Co.

KeyCorp

McGraw Hill Financial, Inc.

MetLife, Inc.

Morgan Stanley

MSD China Holding Co., Ltd.

Mylan Inc.

NASDAQ OMX Group, Inc.

Navistar International

Northern Trust Corporation

PepsiCo, Inc.

PNC Financial Services Group

Reliance Industries Limited

Sears Holdings Corporation

Sodexo, Inc.

SunGard Data Systems Inc.

Target Corporation

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