

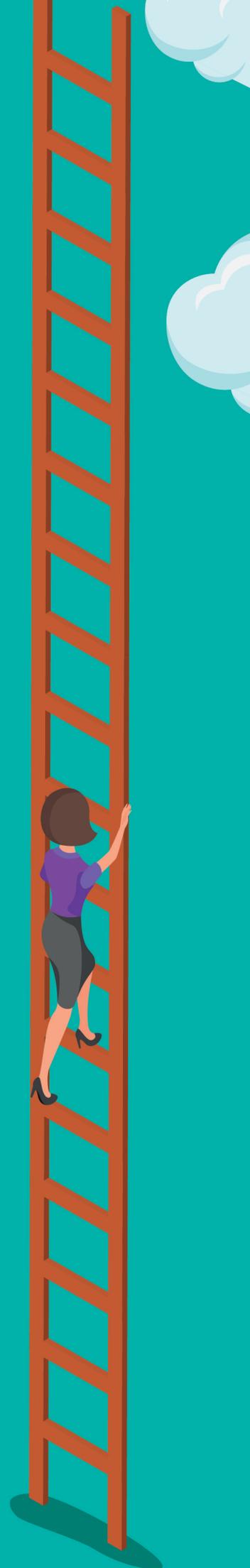


The rise of the Chief HR Officer

“What makes a CHRO successful – now and in the future?”

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Introduction

There has never been a better time to be a Chief HR Officer (CHRO). Gone are the days when HR had to fight for its place at the top table – at least in the FTSE 100 or equivalent. Yet, despite the key role a CHRO plays in shaping a response to challenges such as Brexit, an increasingly complex regulatory and governance landscape and the prospect of increased workforce automation and AI, there is a lack of research on the skills and experience of those who lead the people function in successful organisations.

KPMG decided to fill that gap. Based on unique quantitative and qualitative research on CHROs in the FTSE 100, we ask the question:

“What makes a CHRO successful – now and in the future?”

Contributors

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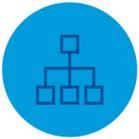
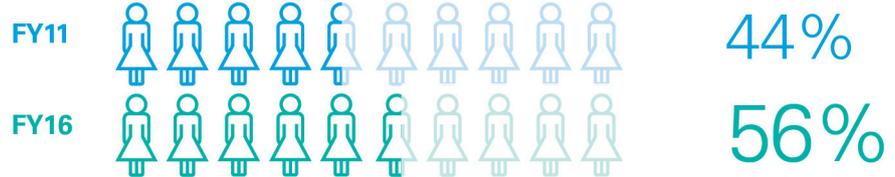
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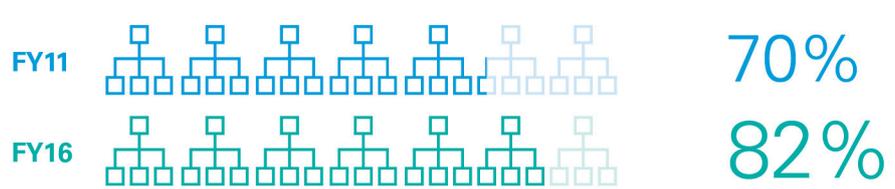
Background



Female representation



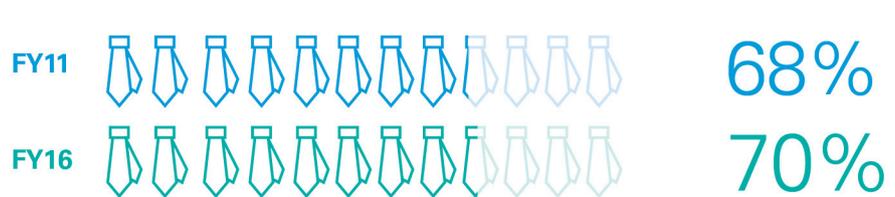
Had worked in more than one sector



From a professional HR background



Are on the executive or management committee



Had been hired from outside into the role



The five years between 2011 and 2016 cover a particularly volatile period of corporate history. This interval includes the aftermath of the global financial crisis, and the run-up to the EU referendum, contributing to unprecedented instability across Europe, Asia and the US.

We have also been subject to new regulations around pay, increased scrutiny around CEO remuneration and behaviour, an intense focus on gender diversity and representation of women in the boardroom, and scandals concerning pension deficits and working conditions. How have these factors affected the CHRO population?

More women, more professionals...

In the five years to 2016, the proportion of female CHROs in the FTSE 100 has risen from 44% to 56%. This is not unexpected given the strong pool of female talent in the HR profession and the renewed focus on gender diversity in senior leadership roles.



That said, a higher percentage increase might have been expected given that the HR profession is around three quarters female¹.

The proportion of FTSE 100 companies with an HR professional in charge of HR rose from 69% to 80%. In our view, this reflects the increasing complexity of the role – particularly in the areas of executive reward. Ronald Shellekens, Group HRD at Vodafone, seemed to speak for many, saying that “HR is a profession, so it should be staffed with people with deep functional experience and competence”. The days of asking a seasoned business person to become HR Director towards the end of their career seem to be drawing to a close, although it can clearly be done and there are some notable, successful exceptions in our sample.

Representation at the top table has ticked up slightly, from 68% to 70% of CHROs sitting on the Executive Committee (ExCo). This is more difficult to measure as not all organisations are transparent about their ExCo structures. That said, in the companies where the CHRO does not appear to be on the ExCo, it is either because the committee is defined very narrowly, or another functional leader also has responsibility for HR, with a professional HR Director underneath. But the direction of travel certainly appears to be towards CHROs being represented on the Executive Committee.

New perspectives

According to our research, more FTSE 100 companies are looking externally for their next CHRO. In FY11, half of CHROs were hired, rather than promoted from within their organisation. In FY16, this had increased to 56%. In a similar vein, the proportion with experience outside of their current sector has also increased, from 70% to 82%.

Both trends suggest that CEOs and Chairs are looking at the CHRO role as a catalyst for change, and in some cases this may be driven by sector convergence. Where almost 10% of current FTSE 100 CEOs have spent their career in the same company, thus the same industry, the CHRO of today must have the breadth of experience necessary to tackle various people issues.

In 2016, the average tenure for an incumbent FTSE 100 CHRO was four years, four months – slightly lower than the average FTSE 100 CEO tenure of 5 years 3 months². It should be noted, however, that the modal range for a CEOs tenure was between one and four years². The average age for CHROs was 50.8 years, again below the average CEO at 55².

“ ”

My cross-sector experiences have enabled me to see the CHRO role priorities through multiple lenses, such as the local and divisional commercial view versus global shareholders and key stakeholder perspectives.

Steven Baert
Novartis

² Robert Half FTSE 100 CEOTracker, April 2016

So what makes a great CHRO?

To shed more light on these trends, we conducted a number of interviews with FTSE 100 CHROs or equivalent.

We posed four questions:



What prepares someone to be a CHRO for a large publicly listed company?



What helps to make you a success once you have taken the role?



How do you spend your time as a CHRO?



How will the role change in the future?

There was a strong consensus on some of the key skills that future CHROs will be required to develop; a deep understanding of the priorities for the business, genuine commercial knowledge, the ability to contribute across a broad business agenda, the ability to influence broadly and the ability to land technical HR points in a way the audience can access. In our interviews, there were differing views as to how best to acquire these skills.

How to prepare for the CHRO role

Roles outside of HR

Many interviewees felt that a role outside of HR is considered to be extremely useful.

Mike Westcott has been Global HR Director of National Grid for over 10 years. He cites his early roles in the sales division of ICI as a formative experience that taught him the realities of business.

Danielle Harmer, Chief People Officer at Metro Bank, spent part of her early career “leading teams in areas like operations, mortgage underwriting and sales delivery. It helps you understand how people interventions impact people at the front line. An HR person who has never seen how people initiatives play through can be a liability,” she says.

One of our interviewees, working in a global CHRO role, spent his first 10 years working outside of HR. This offered him a number of experiences that have been a foundation for the CHRO role. “Significant people management experience – operating manufacturing sites, for example – teaches you about how to manage people,” he says.

That said, some felt this was not the only option. As Pam Walkden, CHRO at Standard Chartered, said: “[Commercial awareness] can be gained through stepping out of HR into a business role, but also should be able to be acquired as an HR business leader, sitting side by side with a BU or regional head”.



A good CHRO could come from any discipline.

Jacky Simmonds

easyJet

Exposure to the corporate centre

One of the major differences between the CHRO role and any other role in HR is the requirement to operate with and interact with senior stakeholders including investors, Regulators, Non-Executive Directors (NEDs) – particularly chairs of the Nomination and Remuneration Committees – and of course the ExCo and CEO.

Senior HRDs are often not prepared for this. However, providing HR services to corporate functions offers a chance of getting closer to these stakeholders.

“When you deliver HR for corporate functions, you have to offer more bespoke solutions, your technical HR skills become more honed. Delivering HR to large populations is great for developing your leadership skills and seeing how interventions and approaches play through into culture and customer experience,” explains Danielle Harmer. “Delivering to corporate functions helps you understand the nuances of senior clients and gets you closer to governance, risk and regulation. Having both is important.”

Mike Westcott agrees that finding a way to get boardroom exposure, such as presenting to the Nominations Committee on talent, is a valuable part of development. He adds: “Presenting to the full board, handling the Q&A with the board, is crucial preparation”.

Many interviewees pointed out that this exposure is important because working with NEDs is very different to working with Executive Committee members. NEDs have a much narrower window into the business than Executive Directors, so what you tell them is critical – “without broader context, conversations are open to misinterpretation or over interpretation; there are subtle differences in how to present information; learning this early is a key skill”, offered one of our CHRO interviewees.



Events...

Most CHROs we talked to had been through significant 'events' that had exposed them either to senior executives or to external parties and had helped prepare them for CHRO responsibilities.

Danielle Harmer remembers: "In the run up to listing, I spent significant time with the various advisers and some of our NEDs, working through the impact of the regulations and the corporate governance requirements and how to comply whilst keeping things in line with our model."

One of our interviewees cites the influence of working with some particularly heavyweight business leaders early on, for example, with senior industry figures on restructuring programmes.

Similarly, Didier Charreton, CHRO at Anglo American, worked for "an amazing CHRO who instilled some core values and ways of working right through the HR function to the most junior HR professionals. In many ways, I'm not doing anything different, just in a different context," he says.



[You need to] build really strong credible relationships with the Chair, CEO, and ExCo colleagues...you need to balance trust with a certain professional distance.

Mike Westcott
National Grid

Other ways to prepare for the CHRO role...

Interviewees raised a number of other experiences they felt were helpful in preparing them personally for the CHRO role.

These included:



A real **breadth of experience** – Mairéad Nayager, Global HR Director at Diageo, suggests CHROs "must have multi-market, multi-regional experiences in addition to strategic regional or global roles".



Furthermore, **international experience** is increasingly important. Ronald Shellekens said "I pay a premium on this to both attract these people and develop them further". On the same theme, Pam Walkden said "International experience, in particular the ability to navigate a global matrix, and to work effectively in different cultures [would be critical for success]".



Some **experience of 'big change'**, such as significant senior leadership changes, M&A, IPO, major cultural or strategy change.



Having a **broad external network**. One said: "CEOs and other Executive members will expect the CHRO to have a view on a range of business trends, and to have connections outside of the organisation. These need to be cultivated before becoming CHRO".



Early autonomy, such as running businesses, units or stores, or otherwise learning from a significant business failure.



Experiencing **shareholder versus commercial orientation**.



Financial Services CHROs tend to need a keen focus on compensation, and so many come from a **reward background**.

Critical success factors

Preparation for the CHRO role is of course crucial, but what differentiates those who have the greatest success once they get there?

Delegation not execution

One of the major steps up between a Divisional HRD and a CHRO, according to Mike Westcott, is that “at Division level, the ability to execute and get things done is incredibly important and will take you a long way. At Group level, this ability won’t be enough, and indeed you need to let go of many things or you will drown”.

So real delegation is required, and instead of execution, the ability to shape and set the agenda at the board level becomes much more important. Didier Charreton also talks about being able to influence and shape the outcomes of the business indirectly.

Unsurprisingly, interviewees often mentioned the need to put in place a really strong HR team so the CHRO has the space to focus on governance related issues. As Steven Baert, CHRO at Novartis, says, “set the vision and direction, build a great and aligned team, know when to step back and let them drive”.



The person in the CHRO position needs to be comfortable holding the tension with multiple stakeholders to get to the right outcome for the business – they need ‘edge’.

Mairéad Nayager
Diageo

Get senior relationships right

Mike Westcott says that key success factors for the CHRO are “primarily in being able to manage stakeholders and build really strong credible relationships with the Chair, other NEDs, the CEO, and ExCo colleagues... gaining their trust and respect for the value and integrity you bring”. Pam Walkden agrees, seeing the importance of “sensitivity to a different kind of relationships with peers on the ExCo. The Group HRD is a privileged position and it is important to build a high level of trust with peers”.

Didier Charreton adds that it’s “very important to build a relationship with the NEDs, for which you need time with them”. Sabine Keller-Busse, Group Head of Human Resources at UBS, also emphasises the time element. She adds: “You need to develop credibility with the board, and gain their trust. This will take a little time.”

Danielle Harmer says that being the Chair of the Remuneration Committee for listed, regulated, companies can be a “very demanding and expert role”. “The CHRO needs to help [the RemCom Chair] keep within the regulatory and corporate governance constraints and guidance and reassure the Committee Chair you are keeping them safe, whilst making sure the board and CEO has the space to run the business.”

You also need to know who needs to know about what, and in what order. Not only that, but you need to become skilled at understanding at the nuances of communication between those parties.

Although others have spoken about the golden triangle of CHRO, CEO and CFO, increasingly our interviewees call out a new golden triangle: one between CHRO, Chair and CEO, with the Chair in particular focussed on issues of succession planning.

Having said that, the CEO – CHRO relationship is still the primary axis, and getting this right is not always straightforward. Des Pullen, Group HRD at Associated British Foods, articulates the need for an HRD to be “prepared for the difficult conversations”, and maintain your position as an employee advocate, even at the Board level.

One of our CHRO interviewees says, you have to be “seen as working for the organisation, not just the CEO... supporting the CEO, but not just a cheerleader for management”. Steven Baert agrees, declaring that “HRDs who are too keen to serve and to please will not be right for the role”.



Understand the business

We've touched on it already, but once in the CHRO role, it's important to "understand the drivers of business performance and be able to read and interpret financial statements as well as your executive and non-executive colleagues," says Didier Charreton.

Understanding the business in a sophisticated way – one that enables you to operate as an equal member of the Executive team across multiple topics – is key. "You need to be able to converse with the ExCo on these topics as a peer... you need to tie your HR function's objectives to the financials and the business plan," explains Sabine Keller-Busse.

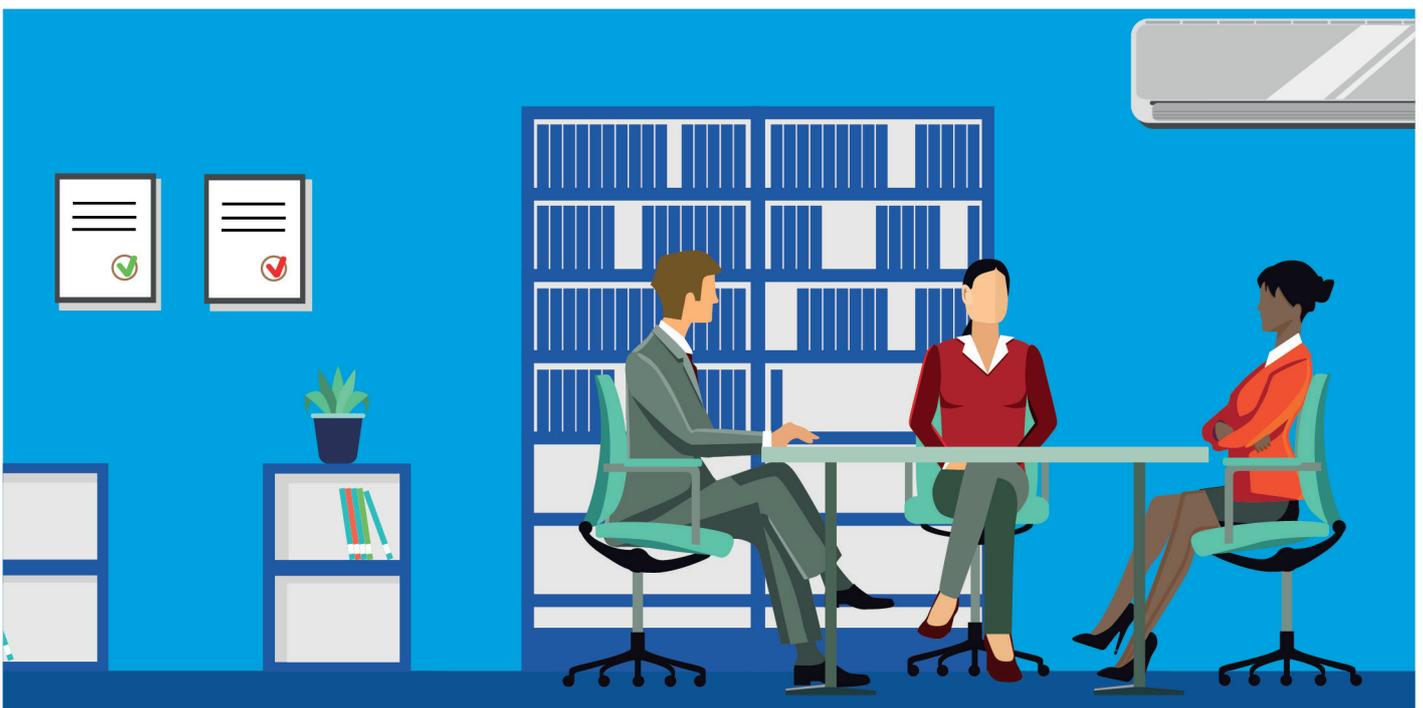
This does not stop at ExCo discussions, however. Increasingly, CHROs need to be prepared to step up and lead on things that aren't necessarily core HR. This could be anything from "an M&A, strategy refresh or operating model programme... be prepared to put yourself forward and lead from the front," says Rachel Campbell, KPMG's Global Head of People. "About 20% of my time is spent leading projects that are not related to HR, but are general business improvement programmes," she adds.

Be great at HR

It sounds obvious, but a successful CHRO still needs to be excellent at HR. Sabine Keller-Busse says "you need the HR technical knowledge, you need to set the strategy for your function and execute it... you need to earn your right to participate in strategy through successful execution"

Des Pullen stresses the importance of being "enough of an HR expert to be able to ask the right questions around talent". Key to this, according to Mike Westcott, is having "a clear vision for how the function will add value to the business". Moreover, a successful CHRO doesn't "go off on pet projects, but focuses on what really adds value to a business," as stated by Jacky Simmonds.

Pam Walkden, someone with broad and deep banking experience who moved into the CHRO role recently, has shown that an HR background is not required to make a success of the role. That said, she would "like to see an HR professional take over" when she eventually steps down, and agrees that the role is becoming more and more specialised and professionalised.



How does a successful CHRO spend their time?

The answer to this is of course, it depends. A potential differentiator is the organisational structure of a business. For example, conglomerates are run more like portfolio businesses, which means the CHRO can be more like that of a PE House, looking after individual areas such as Executive compensation, M&A and portfolio improvement. Divisions are run autonomously and the CHRO has little to do with day-to-day HR matters.

Other businesses may be going through huge transformation or major M&A activity, in which the CHRO's time will be skewed accordingly. It also depends on where the HR function is in terms of maturity. One CHRO we spoke to spent significant time in the first two years helping to build the HR function, but once that journey was complete, she moved on to focus on other areas.

KPMG created a simple model (Figure 1) to describe the CHRO role. Whilst most of the CHROs we interviewed found at least one aspect that was not quite as critical for them currently, they all agreed it broadly captured their role.

Leadership

The quadrant that CHROs seem to spend most time in is the bottom left, which we called Leadership. It includes Board Committees, matters of Executive compensation, leadership succession and general work as part of the Executive Committee.

Didier Charreton believes this is the quadrant where HR can add most value: "You can influence the performance of the business by understanding the executive agenda, influencing it at that level," he says. All CHROs reported spending between 25 to 40 per cent of their time here, particularly focusing on compensation and succession.

One of our CHRO interviewees agrees that leadership is a significant part of the job, in particular when it comes to remuneration. He adds: "I spend significant time talking to NEDs, Chair and Committee members on these topics."

Danielle Harmer reports that in months when there is RemCo, her time spent in this quadrant rises, sometimes to nearly 50%, but this generally only happens four months per year.

Reputation

The Reputation quadrant was where CHROs spent the least amount of time on average, but all kept a high interest in it and felt whilst the percentage was low, the importance was high.

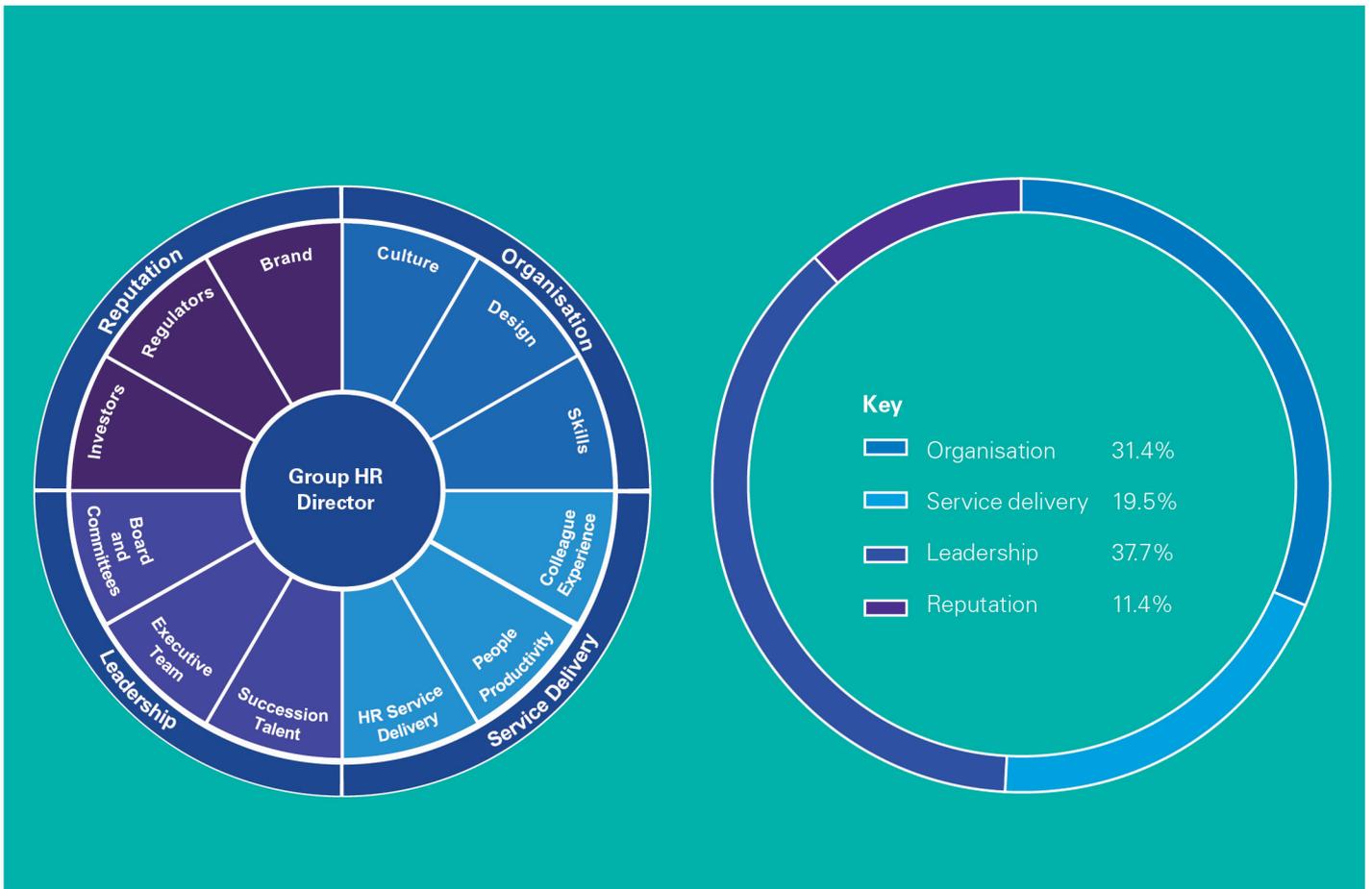
Mike Westcott adds: "Less time, but it's a very important activity. Investors want to know about issues such as succession, culture, governance." Ronald Shellekens echoes this sentiment, and indicates the necessity of spending more time on reputation in the future.

Another interviewee reports that he talks to Regulators about key people issues such as succession, leadership, culture and engagement. He also discusses issues such as compensation and pensions with investors.

The time spent on reputation may not be consistent, as at some points in the year it can be up to 40% of time, but overall, more like 15%, one CHRO adds. "It's a very key part of the role. One of my KPIs relates to the shareholder vote percentage on the Remuneration report. Another relates to the reduction of our pensions deficit."

Danielle Harmer's external conversations, whilst sometimes including advisers and Regulators, are more focused on telling the Metro Bank story, which is distinctive in the banking world and the culture is very much part of, and drives, the customer proposition.





Organisation

The third quadrant is all about influencing the way the organisation works. Sabine Keller-Busse reports spending a significant amount of time in the top right. This includes looking at issues such as the workforce of the future, millennials, diversity, on/offshore labour, digital, analytics and of course culture.

Mike Westcott presents to the Board on culture twice each year and recently led a strategic programme to review the global operating model for National Grid. KPMG's Rachel Campbell estimates that she spends about 15% on culture and purpose, and 15% on future-proofing the company's skills and capabilities.

Much of the value of HR is about helping people understand how they need to behave and 'be' to bring the culture alive, according to Danielle Harmer. "Because culture is a million tiny things, no-one else will call it out – so the CHRO needs to understand it and protect it, then create HR interventions to make it come alive."

HR Service Delivery

Whilst this was invariably the last quadrant to be mentioned, there was unanimous agreement that getting this right was the 'licence to operate'. "HR function needs to be effective and efficient, else you can't focus on the more strategic, value-adding aspects", according to Jacky Simmonds.

For Didier Charreton, HR Service Delivery is "not about running the machine, but about introducing and driving innovation, whether that be in terms of improving HR service quality or reducing workforce cost".

The future

Our final question was about how the role of the CHRO might change in the coming years.

There was a consensus that all of the boxes featured in our quadrant would still be there in five years' time, and that the Organisation quadrant will become increasingly important. In short, thinking about how to create more value through better management and organisation of people will become a major differentiator. This was often cited in the context of the changing nature of work.

There was also a shared view that culture is going to become an ever more important topic in the Boardroom, and not just in the financial services industry. This will be increasingly on the agenda of the CHRO. Another take on this was a view that CHROs will need to drive innovation into the workforce and workforce management.

Finally, our panel agreed that as technology plays an ever-increasing role in the workplace, CHROs are going to have to be confident in dealing with technology and data.



CHROs will need to be much more digitally savvy and understand the application and implications of digital on the inside.

Jacky Simmonds
easyJet



Driving the agenda

Our snap shot research shows a picture of CHROs increasingly at the forefront of business. Spanning investor relations, regulation, Executive compensation, succession, culture, organisation, workforce management and technology – it is a hugely broad and deep agenda.

The most effective CHROs are thoughtful about how they use their time, their influence and their relationships, and passionate about driving value through workforce management.

There are lessons for the next generation of CHROs, in terms of the areas they should try to develop in, and the skills and capabilities that are increasingly important.

One thing is for sure – there's never been a better opportunity to make a difference from the HR hot seat.

Contact us

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About this research

KPMG undertook quantitative analysis of CHROs in the FTSE 100 on September 2011 and September 2016. This was based on publicly available information sourced predominantly from annual reports, BoardEx, corporate web sites and LinkedIn.

We supplemented this with interviews with nine current FTSE 100 CHROs, as well as with a number of CHROs from comparably sized public companies, and some smaller listed companies considered to be particularly innovative in the people space.

Our focus for this research is firmly on the most senior person responsible for Human Resources in a large public company. Job titles vary – some are Group HR Directors, some are Heads of People, some are Chief HR Officers or Chief People Officers. We have used a standard title of CHRO in this report. What they all have in common is that they are the person at the top of a large listed organisation responsible for people issues.

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