



There's a new 'normal' at the top

Today's crop of heads of HR have CEO potential and, for the first time, they just may be the generation that makes it to that highest corporate office. By Dona Roche-Tarry, managing partner, European Board Services at CTPartners

For decades, the best and the brightest in HR have argued that the issues surrounding human capital are not peripheral, but at the very core of what a business does. One of the ironic twists of the economic meltdown is that the very issues top HR leaders have been voicing for decades – executive compensation, succession planning, and leadership development – are now hot buttons for CEOs and boards across all industries and borders. Issues of human capital

can no longer be brushed aside. HR and particularly issues of talent management are finally front and centre.

Good news for the HR profession as a whole, but it will certainly put pressure on some HR leaders to raise their game.

Executive compensation

Before the crash, top-level executive pay was primarily created in a vacuum and not a result of close collaboration between HR and the board. Heads of

HR, in general, were not allowed the opportunity to partner closely with their board. In other words, HR's role was to carry out a function, rather than to be the drivers of the compensation component of a well-defined, multi-layered talent management strategy that permeated the entire organisation. Let's look at what happened when HR was not fully engaged in the process of setting executive compensation.

If the board decided that a key player or players at the executive level needed to be retained, the

compensation committee's task became one of how to achieve this end goal – no matter what the cost. HR people were called in to do the risk analysis and crunch the numbers. Deals were struck. Bonuses were promised.

Would things have been different if HR truly had had a seat at the table during those compensation discussions? At its core, executive compensation is about incentivising the right behaviour. The human capital challenge, then, is how to stimulate that behaviour appropriately. What things do you measure to make sure you're driving the company in the right direction strategically? At the same time, how does the company best reward people for doing what it wants them to do? These are talent management questions with talent management answers.

Similarly, HR heads need to be proactive in periodically taking the pulse of the organisation. This means analysing the actual decisions made around management and leadership issues in the past year or two. Issues like: who's been hired into the company? What's the relationship between pay and talent or pay and turnover? What's the promotion rate of critical people in the organisation?

All these critical factors of how to best manage talent should be the broad framework from which any individual executive's compensation is considered. So, again, looked at in this light, how might today's crisis in executive compensation be different?

For one, the head of HR would have been responsible for raising the question: do we so desperately need to hold on to this top executive(s)? Yes, we will compensate accordingly, but not to the extreme and not at the expense of the company's entire talent management strategy. Isn't that why we have succession planning?

Well, yes and no.

Almost any company can show a first-rate succession plan on paper, but how much weight does it carry when

push comes to shove in the day-to-day running of today's global companies? In my experience, critical pieces of a company's succession plans are over-ridden all the time. Sam from Commercial is leaving the company and Jane from Retail is slated as his successor. But Jane's boss blocks the move because the Retail division is in crisis and Jane simply cannot be spared. And why not? Because there's neither depth nor substance to the succession plan. There's no one prepared to take Jane's place. The whole chain of succession breaks down.

The only way to repair the system is for the CEO to acknowledge the breadth and depth of human capital as a strategic business consideration. A first step that sends a reverberating message in all directions is to make the head of HR a direct report.

When I look at an organisational chart and see that the head of HR reports to a COO, for example, it tells me a lot about the company and how it views its human capital. If HR is yet another area of accountability for a COO, it becomes layered with too many other functions all competing for attention. The COO is simply too overwhelmed to address human capital as a whole so, instead, it continues to be functionalised. Similar to how IT has been pulled out from under the COO and given a seat at the table as CIO, so, too with heads of HR. Make them CHROs. When push comes to shove, Jane's boss's boss is not going to be able to trump the succession plan because the head of HR is not at the same level.

When this happens, the message is sent that in this corporate culture, no one person is irreplaceable. If the succession plan states Jane from Retail is slated to replace Sam from Commercial, no one can stop that movement – regardless of the timing, or regardless of any current crisis in Retail. From the CEO, to the board, to the management team on down, it's

understood that the overall human capital strategy of the company relies on a having a working succession plan more so than the individual needs of any one business unit at any given moment in time. That's successful succession planning.

But it spirals deeper. To have successful succession planning, there must be an equally strong leadership development culture in place as well that is continually grooming mid-level executives to move into positions of increased responsibility and accountability. We're going to see the bench-strength of companies' leadership development programmes in the months ahead because an array of different constituents are going to be demanding executive accountability, be they shareholders, government regulators, customers, or other allied interests. Heads of HR will be responsible for these assessments. How successful they're going to be able to be may depend on how much buy-in the CEO has that HR is a vital component of running the business.

As marketing is to brand, HR is to human capital

It's well understood that marketing doesn't own the brand, but rather, marketing facilitates the brand. The brand transcends every aspect of the company and each discipline is responsible for its part in maintaining that brand in accordance to the CEO's direction. The same should hold true for HR. HR doesn't own the 'HR function', rather it facilitates the company's human capital, the company's talent. And, as with the brand, the CEO is ultimately in charge and is where the buck stops with human capital. The responsibility for driving human capital initiatives, however, lies with the head of HR, just as the responsibility for driving the brand lies with the head of marketing.

I have already stressed the importance of the head of HR reporting directly to the CEO so that issues of

human capital don't get mired in with other operating issues. But the CEO needs to be acting on the best input from him or her when it comes to issues of human capital. The argument that HR should command a seat at the table has been made for years. These arguments are worth voicing, and voicing strongly, but until the CEO is in agreement, the structure and emphasis of human capital concerns will not change.

So what's different this time?

The economic fallout and the subsequent appointments of government officials to the boards of financial companies is an extraordinary and unprecedented move. The intense scrutiny this is placing on executive compensation will have a domino effect through all the fundamental areas of talent management because they're all inter-related.

You can't effectively talk about executive pay without having a thorough (and enforced) leadership succession plan in place. You can't have an effective succession plan in place if you aren't continually investing in the leadership training of your people. You can't be investing in the leadership training of your people if you aren't adequately assessing their performance. And all of this takes money. Starting at the top with the head of HR having the resources to invest in his or her own professional development.

Engaging business coaches and HR advisory boards

In the months ahead, businesses will continue to be hit with challenges from all directions. Issues of human capital will be right in the centre of the storm. Heads of HR, ready or not, will have to step up to the plate and perform as never before. And, like it or not, CEOs are going to have to let them.

For those with the skills, intensity, and business acumen it is the level of responsibility and accountability they have been jockeying to get for years. But not all will make the cut. I expect we will see some high-level HR executives let go in the months to come because the wave that's coming is going to hit like a tsunami.

How can HR leaders prepare themselves? Two-fold. The first step is to engage in strong, individual coaching from a combination of savvy business executives and seasoned HR directors. The former is needed because HR leaders must understand their core business inside and out, backward and forward from balance sheets to import-export projections to every data point in between. They must be able to speak the numbers and know the product and the customers. After all, it is expected that they will be going before their board of directors, or its sub-committees, with increasing frequency and with greater complexity.

This cannot be over-emphasized. Today's crop of heads of HR have CEO potential. For the first time, they just may be the generation that makes it to that highest corporate office. To do so, however, they must be well-grounded in all aspects of the business. So get

some coaching. CEOs regularly get coaching, as do COOs and CFOs. Why not the heads of HR as well? Sounds simple, but the reality most likely has been that there's been no budget for the heads of HR to get the same high-calibre professional development as others in the C-suite. Be proactive with your CEO and acknowledge the challenges you both will be facing in the months ahead and that you need to be at the top of your game if you are going to advise him or her on how to negotiate the tough times ahead.

That's step one. Step two is to build an advisory board of successful HR leaders whom you can turn to for advice and guidance during the tumultuous times ahead. If HR leaders are doing this for each other, their own professional stock within the company – and throughout the greater business community – can only go up, perhaps even faster than the economy rebounds. ■

