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Taking stock of the CHRO role

Professor Richard R. Smith, of Singapore Management University, reveals some key insights from a recent research project into the burgeoning Chief HR Officer role, and asks “where next” for these leaders of human capital management

If you have been around the HR profession for a while, perhaps you have noticed that we are seeing a lot more people with the title of Chief HR Officer (CHRO) than ever before.

I was curious to better understand what was driving this and launched a research project to examine this phenomenon. Could it be that HR finally has a seat at the strategic decision-making table in the organisation – or is this just a cool title? Do CEOs now finally recognise the value of HR Management? Are these CHROs making an impact? And what does all this mean for future CHROs?

If we look at the history of the HR function, the driver of work came from regulation, compliance, labor union management, and the required record keeping administration associated with employment in each country. As a result, the role of the leader of the HR function was burdened with administration.

In the 1990s when more companies began to see the value of people in the organisation through participative management practices and innovation, we witnessed a shift of the “Personnel Department” to that of the “HR Function.” Of course, this was not a sudden change and the administration did not disappear, but it did signal



progress. This shift paved the way for new approaches in HR Management, the rise of shared services, and more attempts at taking a strategic view (albeit as a cost centre with limited budget). However, in most cases the head of the HR function was typically reporting to an operational leader or Chief Financial Officer (CFO).

A seat at the table

At this point in the evolution, many top HR leaders were striving to have a seat at the strategic table with the CEO.

What began to happen around 2000 is quite interesting. Our research at SMU shows a clear shift in the reporting relationship and increase in level of the HR leader starting in the

early 2000s. At that time, about 20% of larger companies had the HR leader reporting to the CEO (sample of 500 firms from the S&P 500 index). If we look at this same sample of companies today, more than 90% have a CHRO reporting directly to the CEO. In fact, all around the world and across Asia, we have seen the progressive increase in HR leaders who report directly to the CEO – and the rapid rise in the use of the CHRO title.

This reflects a change in the orientation of the HR function as well as a change in the role of the top HR leader.

What is driving this shift? To understand this better, we examined the top management issues and agenda items facing company leadership teams.

As companies became more global, took on more technology in operations, and grew their employee bases, HR became more critical to business results. In fact, over the last several years, CEOs have reported to The Conference Board that the number one challenge in their business is human capital.

What is more striking is the follow-up question to CEOs: “Are you prepared to address this human capital challenge?”

Only 27% of CEOs say ‘yes’. The issues associated with managing people and the potential value of strategic human capital is driving the need for a senior officer to act as the steward of this resource within the firm – hence the rise of the CHRO.

Unclear impact

So now HR has a seat at the strategic top management team table – this is great, but is it working? Unfortunately, this is less clear.

Research from Gartner shows that while there is belief that the CHRO should be a key player, 64% of senior leaders in the organisation do not understand the role of the CHRO. In addition, less than half of senior leaders in *Fortune 500* firms believed that the CHRO had strategic business skills. This is a bit scary! So, what is this top HR role all about?

There we find a bit of a disconnect. Most CHROs define their top priority and spend their time on leading the HR function and addressing talent issues. However, a survey of CEOs shows that the expectation is that the CHRO should address strategic human capital. Here we refer to the company's human capital as a system of organisation culture, strategic leadership, organisation structure, and talent management. Based on the feedback from CEOs, it seems clear that the CHRO role should be much more about strategic human capital than HR management. Perhaps some level of alignment is needed.

When asked about how senior HR leaders are addressing strategic human capital, most leaders don't give the HR function high marks. In fact, this is reflected in the recruiting of the CHRO. Our research shows that more than 60% of CHROs are hired from external sources! This is a sad commentary on the talent management efforts within HR!

Perhaps HR leaders are too busy taking care of the rest of the organisation to do proper succession and leadership development within their own

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department? Compared to the hiring of the CEO (25% sourced externally) and CFO (35% sourced externally), we notice that many firms are looking externally for talent when it comes to CHROs. When asked why CHROs are more than twice as likely to be external hires than the CFO, we find that insufficient succession management, lack of strategic human capital orientation or limited business knowledge are noted.

It seems clear that the rise of the CHRO has signaled a change in the strategic nature of the role. However, we seem to have a challenge when it comes to meeting the expectations. Is there a risk that the role of the CHRO at the top of the organisation will not continue? After all, business conditions and preferences do shift over time.

Some firms have adopted a senior leadership officer to address human capital issues that is separate from the leader of the HR function. If we look at other functional leaders, we saw the decline of many Chief Marketing Officers in the 1990s as the function became more integrated with line business capabilities. While marketing is still critical, having a chief officer for the capability seems not so important as this role shows up in less than 40% of organisations today. Will we see CHROs in the decades ahead? If the CHRO is to remain as a key

leader in the organisation, there needs to be a demonstrated bottom line impact.

Our recent research at SMU evaluated the impact of this role using the “Great Place to Work” rankings. We found a clear linkage between the power of the CHRO, the rankings as a great place to work, and firm performance. In other words, the role of the CHRO has a positive impact on ranking as a great place to work.

The Great Place to Work rankings are highly correlated with sustained financial performance over time (measured by return on assets). So, to answer the question – Yes, the CHRO at the top of the organisation can make an impact!

The evolving CHRO role

So, what advice do we have for people aspiring to be a CHRO in the future? First, it seems even more critical to have solid business knowledge and to be able to speak the language of business. More than 80% of all CHROs have a master's degree and this seems to be increasing as future leaders expand their on-the-job knowledge base. In addition, the orientation towards strategic human capital will be increasing as CEOs expect CHROs to address organisation culture, strategic leadership, organisation structure and other areas in addition to talent management. Based on trends

in the function, specific areas that the future CHRO must be comfortable with include analytics, digital business, and information technology. As business becomes more globally connected, many organisations expect their top leaders to have international experience.

The bottom line is that diligently performing HR roles in the HR function is not sufficient preparation for the leadership role of the CHRO – just as being a good accountant does not make a CFO.

Of course, more work must be done to help us uncover the role and impact of the CHRO and we will be continuing our research at SMU. The good news is that HR leadership has changed to be more strategic and there is evidence of the impact of this role. As the CHRO becomes more commonplace, it seems that more work could be done to help groom future CHROs and develop the talent needed for future HR leaders.

The profession has come a long way and CEOs are looking for help with human capital now more than ever – it is a good time to be in HR! **hrm**

About the Author

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