

**Center for
Executive
Succession**

CHRO Succession

Results of the 2014 **HR@Moore** Survey
of Chief HR Officers

Patrick M. Wright
Thomas C. Vandiver Bicentennial Chair in
Business and Professor of Management

Anthony J. Nyberg
Associate Professor of Management

Donald J. Schepker
Assistant Professor of Management

Michael D. Ulrich
Ph.D. Student of Management



UNIVERSITY OF
SOUTH CAROLINA
Darla Moore School of Business

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Executive Summary

This report discusses the results of the **2014 HR@Moore Survey of Chief HR Officers**, particularly focusing on the section that explored Chief HR Officer (CHRO) succession. The results show that a vast majority (60%) of the CHROs were hired either from outside the organization or outside the HR function, with only 32% attaining the role through a normal internal succession process. Most outside hires suggested that the reason for the outside hire was due to a lack of sufficient internal talent. In addition, CHROs reported that they were least prepared for dealing with the board around issues of executive compensation, and that the prior assignment that was most valuable for preparing them for the CHRO role was serving as a business partner to a large business.

CHROs who describe current efforts to develop an internal successor report that it requires getting the potential successor visibility with the CEO, ELT, and the board, and this usually occurs through special projects. It also requires developing their skills/experiences/perspectives through rotating the individual through difficult roles.



Introduction

As the CHRO role becomes more visible, complex, difficult, and valuable, the HR@Moore Survey of CHROs has annually attempted to explore the issues, challenges, and best practices by gaining insights from those sitting in the role. The survey has explored a number of issues over the past six years, including the CEO's agenda for HR, CEO/Executive Leadership Team (ELT) dynamics, and the CHRO's role in CEO succession. The 2014 survey focused on three areas: The impact of the Patient Protection and Affordable Care Act (PPACA), assessment and onboarding of CEO successor candidates, and CHRO succession. This report focuses on the survey results regarding CHRO succession.

The survey was sent to 560 Chief HR Officers at the Fortune 500 companies as well as CHROs that are part of a large CHRO professional society. Completed surveys were received from 223, representing a 40% response rate.

The survey consists of a combination of quantitative and qualitative (open-ended) questions. While the quantitative responses lend themselves to easy interpretation, answers to the open-ended questions create challenges. To

handle these, the lead researcher read through all of the responses to each question and developed categories that represented the most frequently cited themes. Then two Masters of HR students coded each individual response into the defined categories. If they disagreed, they discussed their rationale until they could come to agreement on the appropriate category in which a response belonged. This enables us to present more quantitative analyses of the qualitative data.

The CHRO's Roles

Before discussing the details of CHRO succession, we present data on the various roles and activities of CHROs. In previous CHRO surveys we presented the respondents with 7 work roles identified based on interviews and focus groups of CHROs. These roles are listed in Table 1.

As Figure 1 shows, CHROs continue to report spending the most time in their role as Leader of the HR function (23%). Strategic Advisor and Talent Architect both account for 17% of CHRO time followed by Counselor/Confidante/Coach at 16%. Finally, CHROs report spending 12% of their time as Liaison to the Board of Directors.

TABLE 1. CHRO roles

Strategic Advisor to the Executive Team

Activities focused specifically on the formulations and implementation of the firm's strategy.

Counselor/Confidante/Coach to the Executive Team

Activities focused on counseling or coaching executive team members or resolving interpersonal or political conflicts among members.

Liaison to the Board of Directors

preparation for board meetings, phone calls with board members, attendance at board meetings.

Talent Strategist/Architect

Activities focused on building and identifying the human capital critical to the present and future of the firm.

Leader of the HR Function

Working with HR team members regarding the development, design, and delivery of HR services.

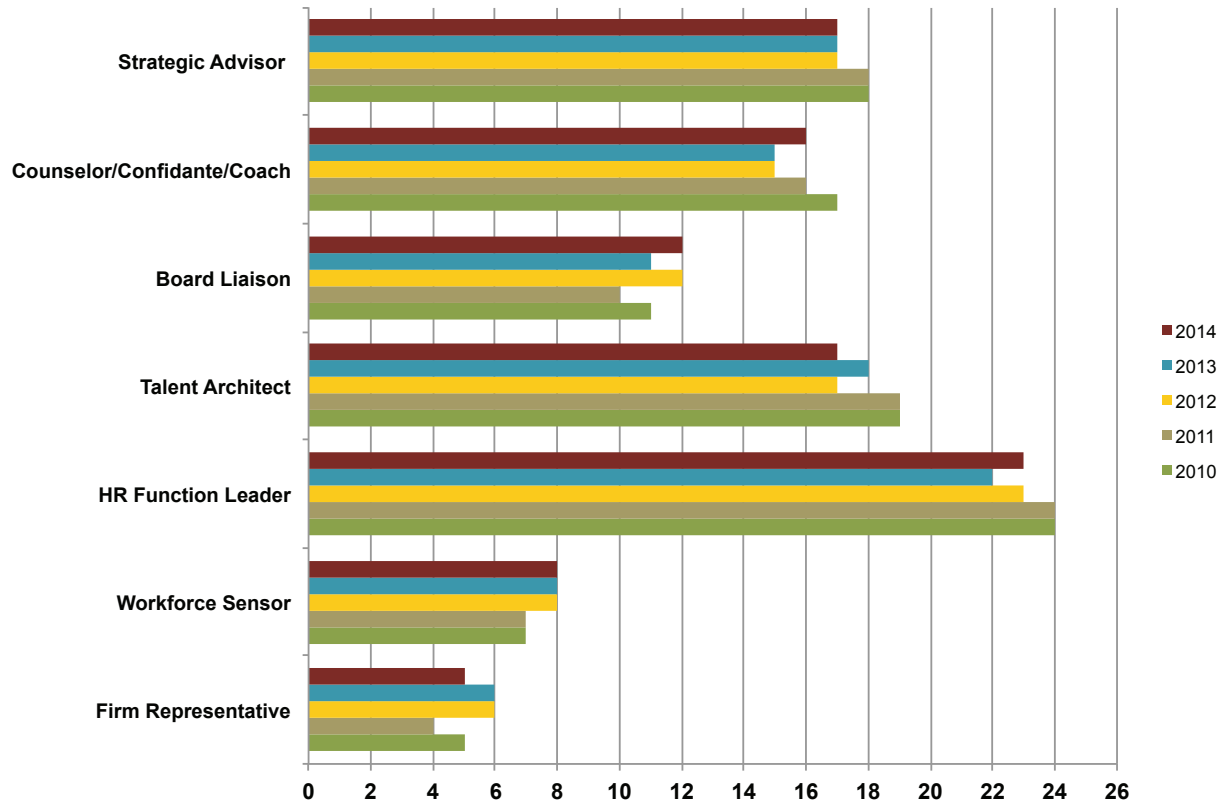
Workforce Sensor

Activities focused on identifying workforce engagement/morale issues or concerns and building employee engagement.

Representative of the Firm

Activities with external stakeholders, such as government agencies, investor groups, proxy advisory firms, professional societies, etc.

Figure 1: Time Spent In CHRO roles



The stability of these roles over time seems the most glaring observation from these results. Over the past 5 years of the survey, virtually every role has only varied by 1-2%. This suggests that, at least for now, we have a reliable and stable picture of the CHRO role.

The CHRO Succession Problem

While the role seems stable, how individuals enter the role has been shown to be both stable and problematic. Past surveys have revealed that only 34-36% of CHROs came into their role through an internal succession within the HR function, with the rest either being directly brought into the role from outside the organization, being promoted from outside HR but within in the organization, or being hired from outside the organization with the promise of becoming the CHRO after a short transition period. This compares unfavorably with the CFO role where roughly 56% were promoted through an internal succession. Thus, the 2014 survey sought to gain more specific insights into how CHROs seek to develop their successors, as

well as the reasons that CEOs often look outside for the CHRO’s successor.

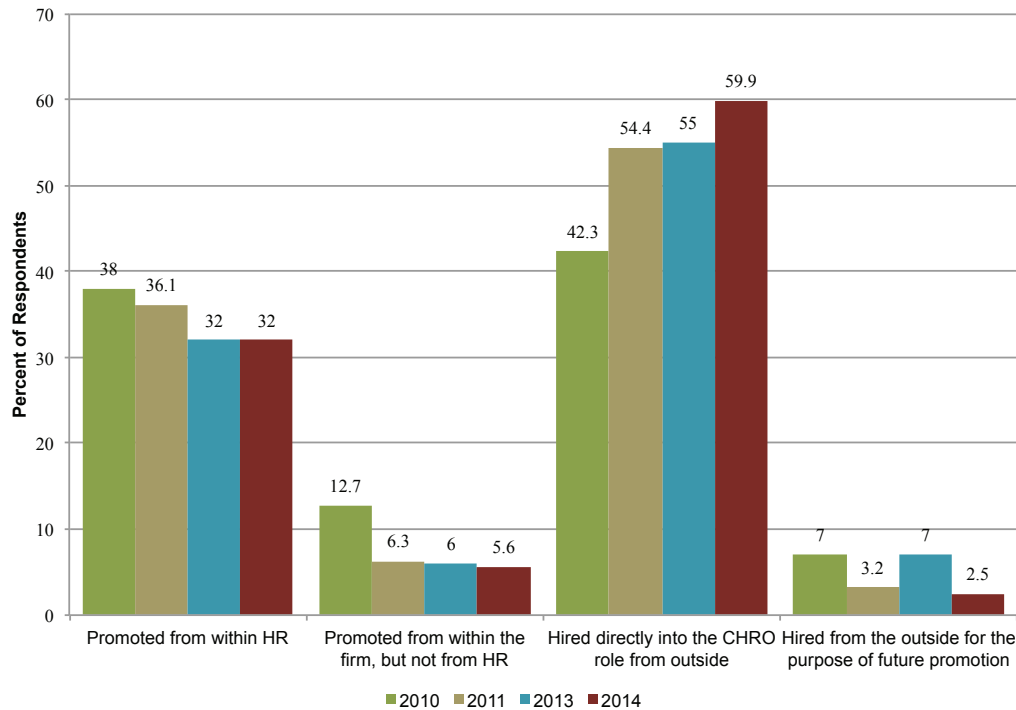
The CHRO’s Elevation to the Role

The first set of questions focused on how the responding CHRO attained the role. CHROs were asked about their predecessor’s departure, how they were selected, and the reasons involved in that selection.

Only 30.7% of CHROs reported that their predecessor left through a normal retirement. 51% reported that the predecessor left “through mutual agreement,” 8.9% left for an outside job, and 9.4% were promoted or transferred into a different role.

Consistent with prior surveys, we asked how the respondent came into the role. Again, consistent with past results, 32% were promoted through a normal internal (within HR) succession, while 59.9% were hired directly from outside. An additional 2.5% were hired from outside with the promise of being promoted into the role, and 5.6% were promoted

Figure 2: How were you promoted to the CHRO role?



from within the organization but outside of HR. Figure 2 shows these results over the past five years of the survey.

Depending upon the response, follow up questions appeared to gain more insight regarding that career path. Among those internally promoted, 71.4% indicated that they knew they were being groomed to succeed the CHRO and 36.5% reported that they had previously worked for the CEO.

For those who indicated that they had been hired from outside, we asked why they believed the CEO wanted an outsider in the role. The most frequent response dealt with the fact that there was no internal talent available that could take on the role (49%). In some cases, it was to transform the HR function (22%) or to provide a more strategic perspective (16%). These results can be seen in Figure 3 and we provide some examples in Table 2.

For those who responded that they were promoted from within the organization, but outside of HR, we asked why they believed the

CEO went outside of HR to fill the role. Keeping in mind that only ten people answered this question, the most frequent response suggested that the desire for someone with business acumen drove the CEO to seek someone from the business. A few responses indicated that their reputation and credibility led to their placement in the role, and a few also noted the lack of a competent internal successor.

Finally, evidence suggests that boards increasingly participate in the selection of other C-suite members (besides the CEO), so we asked about the involvement that the board had in their selection. The responses fell into three categories. As Figure 4 shows, just over a third of the CHROs were interviewed by one or more board members. The next highest category were those where the board had no input (28%). The board approved the appointment in 22% of the cases and played an advisory role in 12%. Some examples are provided in Table 3.

We asked all CHROs what they felt least prepared for when they took on the CHRO role and these results appear in Figure 5. Clearly the most pressing

Figure 3. Why do you think you were brought in from outside instead of an internal promotion?

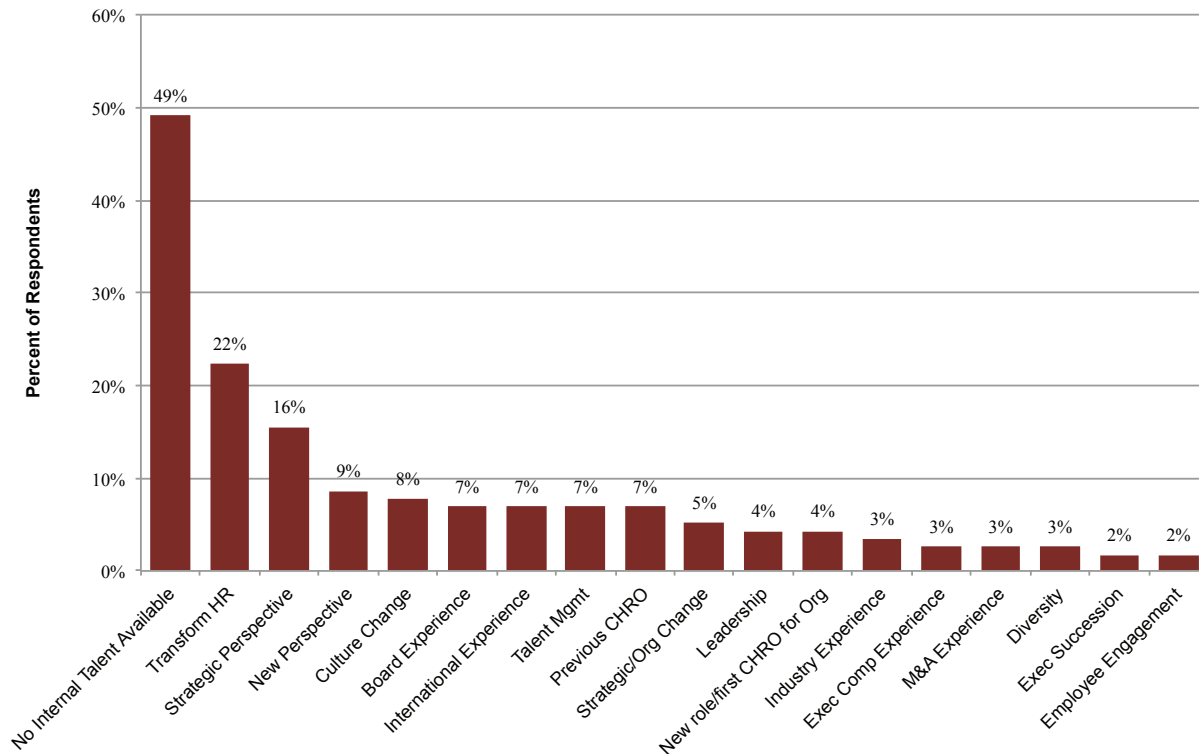


TABLE 2. Reasons for CEO wanting an outsider CHRO

No ready now internal candidates with proven Board experience, depth of executive compensation knowledge, and international working experience.

HR had been undervalued and underinvested in and there was no bench.

Lack of bench strength and to bring needed experience aligned to the strategic plan.

There were no viable internal candidates. There was a general sense that the HR organization at that time was not impactful. There was a desire on the part of the CEO to upgrade the HR function.

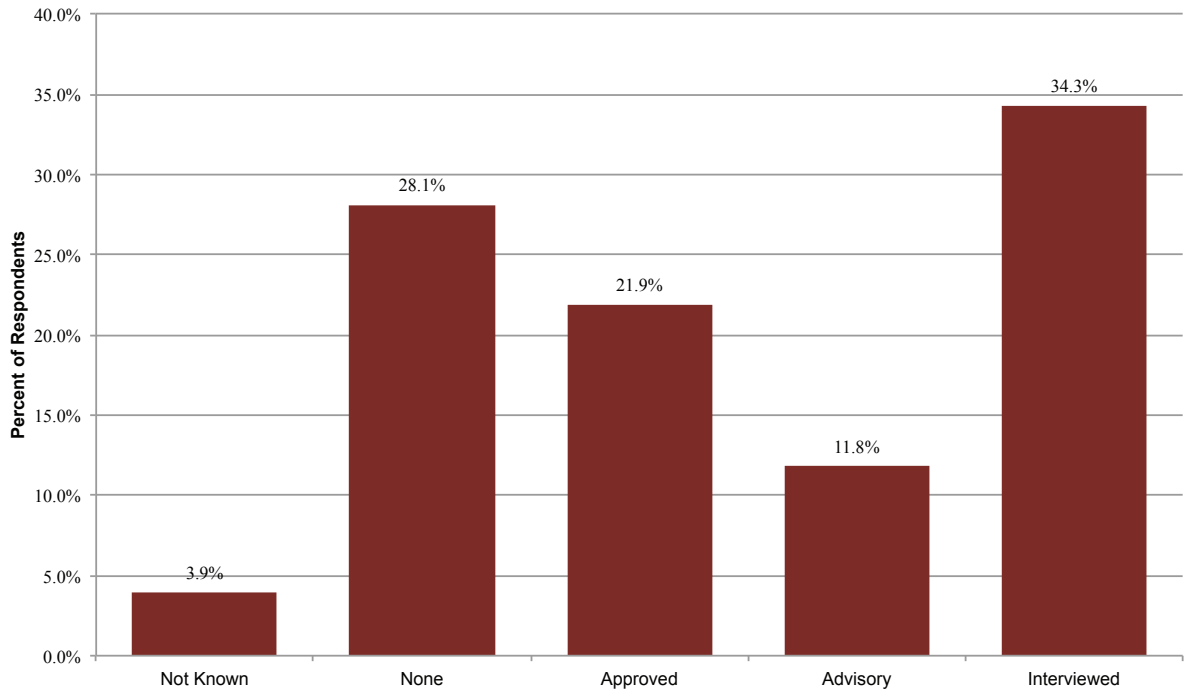
To partner with the CEO in the transformation of the company, to generate a leadership pipeline strategy and its implementation, to turn around the HR function.

No internal successor with experience. Also, CEO was looking for an outsider to come in and rebuild function to align with longer-term strategy of business and evolving business model.

HR function needed to be radically transformed and there were no right candidates internally. There were two leaders who had aspects of the job, but not the full skill set and the personal values/attributes the CEO and other ELT wanted.

The new CEO intended to change the strategic course for the company and wanted fresh perspective and expertise in large-scale change which was not available internally.

Figure 4. What role did the board play in the decision to hire or promote you into the role?



challenge for a new CHRO deals with two intersecting issues. Executive Compensation (27%) and Dealing with the Board of Directors (24%) topped the list of things CHROs reported being least prepared for, far outdistancing other aspects such as Dealing with C-Suite members and Understanding the Business (both mentioned by 9% of the respondents). These

were closely followed by the Global Nature of the Business/Function/Talent, the HR team/HR function, and Understanding the Industry (all at 8%). Table 4 provides some examples of responses from the CHROs.

We also asked which assignments and/or experiences best prepared them for the CHRO role.

TABLE 3. Board’s role in selection of current CHRO

Approved

The Board approved my profile and compensation. They did not interview me.

Although limited—they did have interaction with me prior to the promotion—I would not say they played a role in the decision. The CEO likely informed the Board of his intentions to promote me, and, hearing no concerns expressed, he moved forward.

Advisory

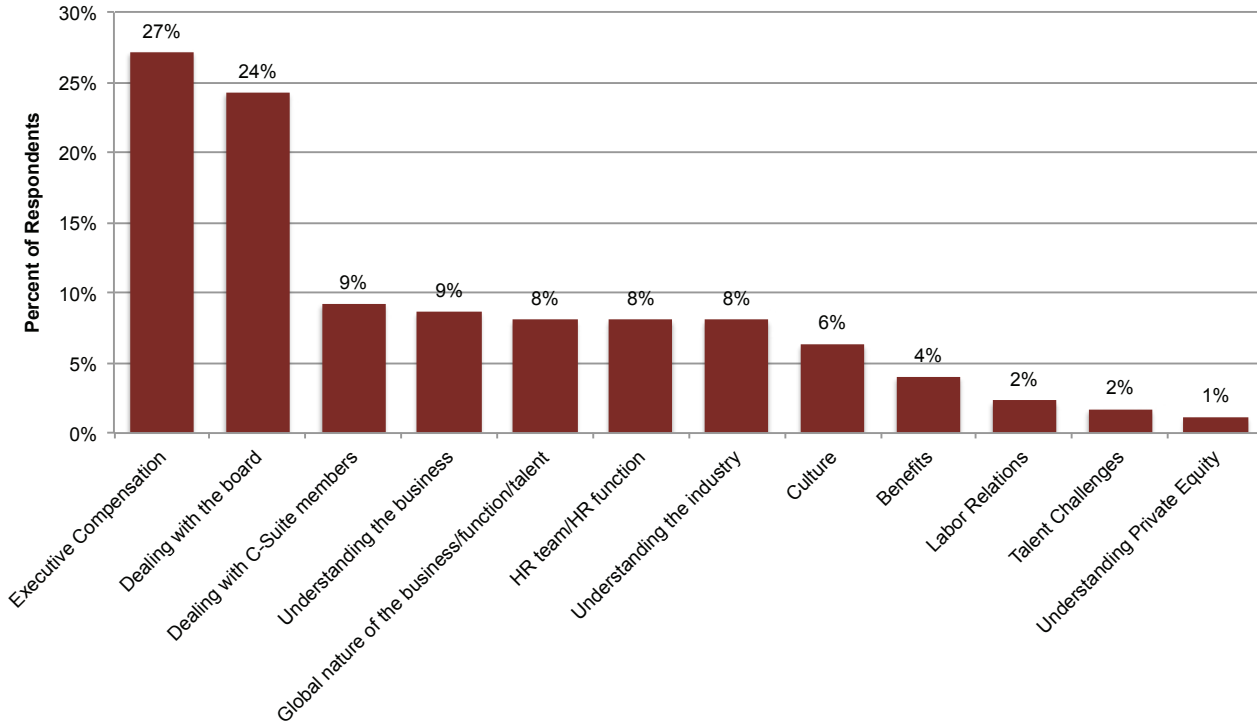
I believe they encouraged our CEO to look outside. This decision was probably driven mostly by the compensation committee.

Interviewed

The Board interviewed me and had to approve my appointment and my compensation package as a member of the Executive Management Team.

The Chair of the Board and the Chair of Compensation Committee interviewed me. Although it was ultimately the CEO’s decision, their endorsements were obviously important to him/her.

Figure 5. What did you feel least prepared for in the CHRO role?



The responses seemed to fall into three general categories: HR Assignments, Work Experiences, and Non-HR Assignments.

HR Business Partner was the most frequently mentioned role (33%), followed by a past role as CHRO (19%), Benefits (15%), International Assignment (12%), and Executive Compensation (11%). These results can be seen in Figure 6.

CHROs also mentioned a number of work experiences that they felt helped to prepare them

for the role and these results appear in Figure 7. The most common experience was the opportunity to work with the Compensation Committee (7%).

Finally, a few mentioned having held non-HR roles as valuable for preparing them for the CHRO role. As Figure 8 shows, 4% mentioned having held a general management role and 3% an operations role.

In summary, many CHROs came into the role from outside, largely because there was not enough

TABLE 4. Least prepared for when taking on the CHRO role

In my first CHRO role, I was least prepared for the board, CEO, management dynamics (along with a corporate governance challenge!). Secondly, the world of executive comp was another learning curve.

I did not have experience in the more complex elements of Executive/CEO compensation or other regulatory topics covered at the Board level.

Board work and C-suite work, despite having worked with the C-suite members for years. Exec Pay also has accelerated and changed wildly over the last six years, my tenure as CHRO.

Board level meeting and interaction. Lack of experience in compensation committee meeting has been a real learning curve.

Technically, I was least prepared in area of executive compensation but the biggest development need was probably learning how to work with the board - understand their expectations, build strong relationships and gain their confidence.

Figure 6. What HR assignments best prepared you for the CHRO role?

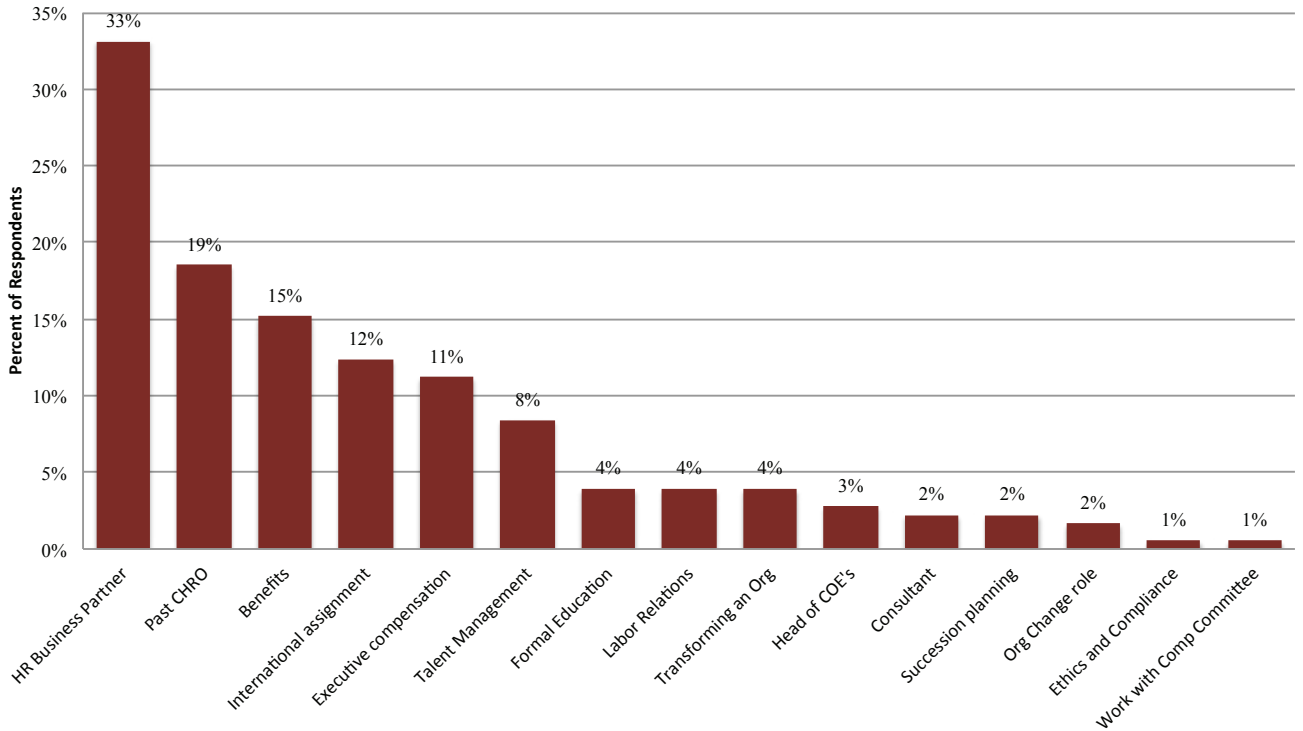


Figure 7. What work experiences best prepared you for the CHRO role?

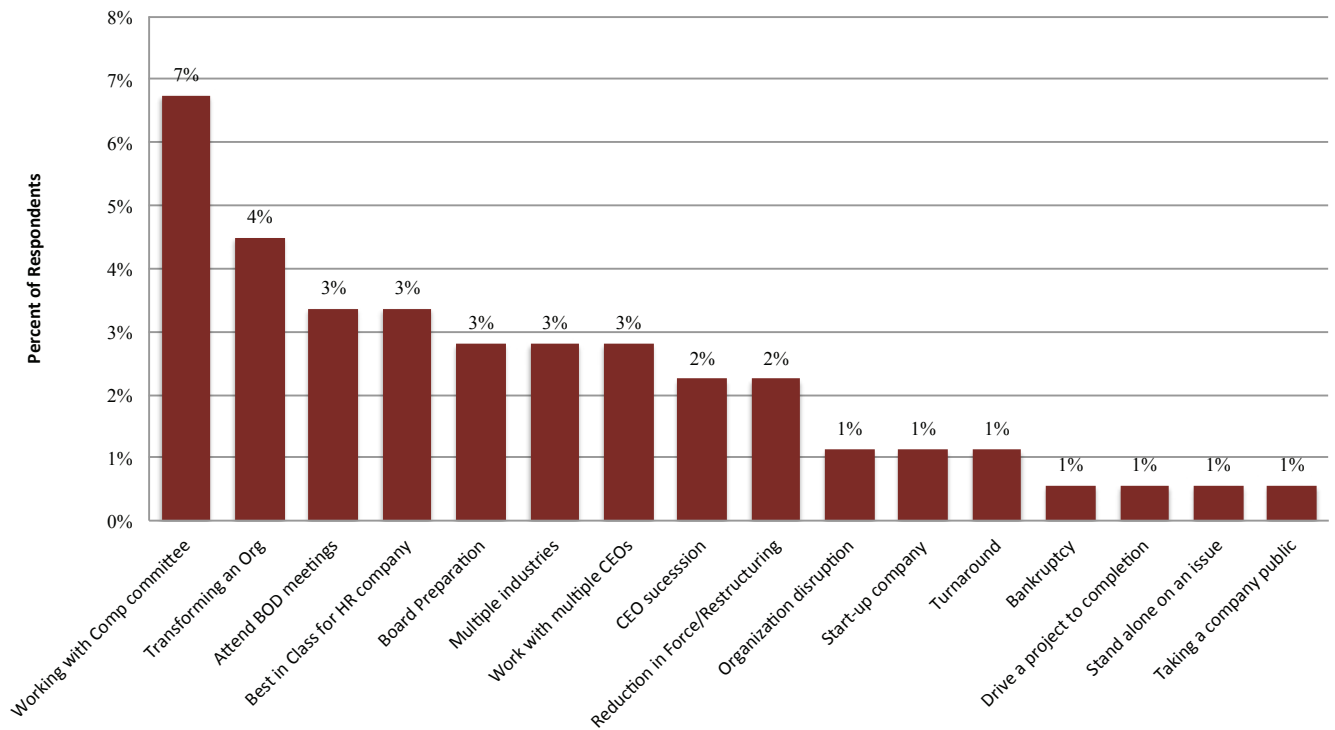
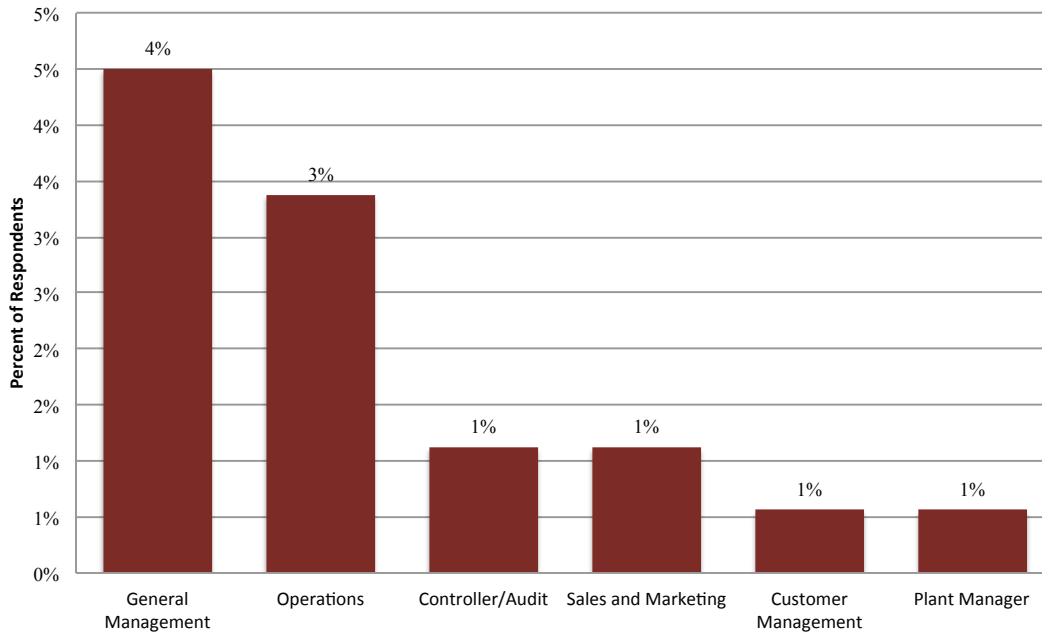


Figure 8. What Non-HR assignments or experiences best prepared you for the CHRO role?



internal talent in the function, or at least talent with the right skill set. Those coming in are least prepared for their role with the board, which is something difficult to gain experience in when being promoted internally. While being a past CHRO probably provides the best training, the types of experiences an internal candidate can gain to best prepare them for the role include those that put them closer to the business (business partner), quantitative analysis (benefits and executive compensation), the talent architect role (talent management) and the board (executive compensation).

Preparing Your Successor

After gaining insights into the current CHRO’s experiences prior to their promotion, we then sought to explore how these same CHROs are preparing their own successor. We first asked about the current state of their succession candidates. Of those responding, 25.1% indicated that if they stepped down today they would have a ready now candidate, 40.3% said the candidate would be ready in 1-2 years, and 34.6% said that it would be longer than 2 years. An informal poll of the CHROs that

serve on this survey’s advisory board suggests that these numbers are disappointing. Most suggested that in their firm 50% (or higher) of the C-Suite jobs should have a ready-now successor. Although they note that the line C-suite jobs have greater need for a ready successor than staff jobs, they also did not defend such a low number for the CHRO role.

These results deserve some discussion. Given that our results on past surveys show only 34-36% of CHROs came into the job through an internal succession (32% in this year’s survey), we have often wondered why this number is so low. When considering that on a previous question over 50% of the CHROs noted that their predecessor left “by mutual agreement” (probably not through a planned process) it may be that in a number of cases their earlier than expected departure did not enable them to fully build a ready-now successor. In addition, there are a number of reasons offered for why CEOs go outside for their CHRO hire (need someone with board experience, coming from outside they do not trust an insider CHRO, etc.) In our discussions with a number of CHROs it appears that the position is quite unique, and depends

on a good chemistry between the CEO and CHRO, thus it may be that the position may never be like other C-suite roles in terms of the percentage of internal successions. However, this should not justify failing to develop internal successor candidates to provide options for the CEO.

In addition, 87.8% said that their CEO supports the internal candidate. CHROs reported talking with their CEO about CHRO succession on a relatively infrequent basis with 1.6% saying they talk to the CEO weekly, 4.7% monthly, 22.9%

quarterly, 35.4% semi-annually, 30.7% annually, and 4.7% less than annually.

We also asked how the CEO has become familiar with the internal candidate. The results show that the CEO has engaged the candidate through multiple venues (48%), including having them work on special projects (29%), one-on-one meetings with the CEO (26%), presentations, and attending the ELT meetings (21% for each). This is depicted in Figure 9 and we provide a number of examples in Table 5.

Figure 9. Describe the ways your CEO has gotten to know the internal candidate

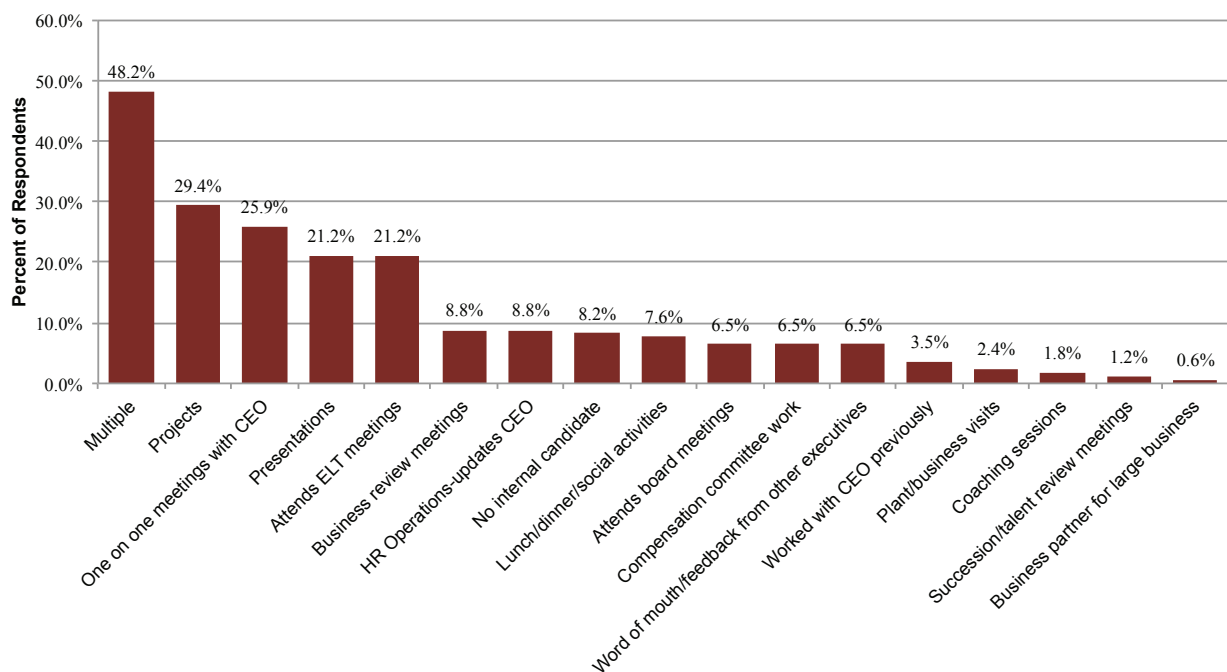


TABLE 5. Ways the CEO has gotten to know the CHRO successor

1-1 time; projects, presentations.

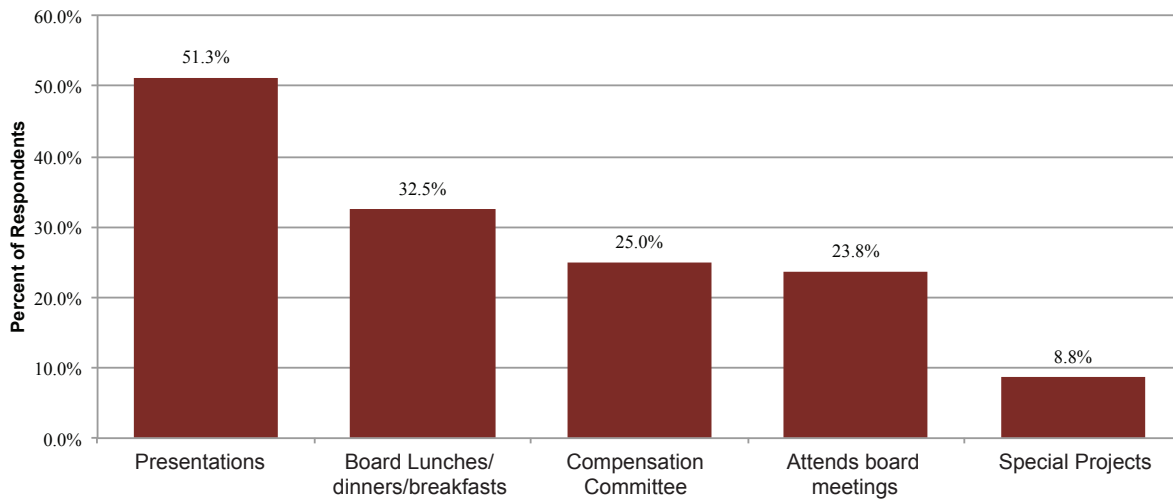
Exposure in meetings, presentations, town halls, FB from Executive Team.

He meets one on one with her, she is leading critical projects, has attended executive team meetings and comp committee meetings and he gets feedback from other executives on her.

Presentations at key meetings, plan to present at Board of Directors meeting.

Through talent reviews, market visits, leadership meetings, presentations on projects assigned to these people which can also require them to work directly with him, informal sessions like dinners and skip level events.

Figure 10. How have your internal candidates been exposed to the Board?



As boards are increasingly participating in C-suite hires/promotions, we asked how CHROs had given the board exposure to their internal successor candidates. Not surprisingly, presenting at board meetings (51%) topped the list, followed by attending meals at the board meeting (32%), working with the compensation committee (25%), and attending board meetings (24%). These results are shown in Figure 10 and we provide examples in Table 6.

Finally, we asked about the top 3 ways that the CHROs were developing their internal successors. Providing them with challenging assignments/rotations topped the list with 45% indicating they use this. This was followed by providing them exposure to the ELT (34%) and the board (31%). Coaching (24%), assigning them to lead visible projects (20%), and giving them executive compensation experience (20%) rounded out

the most popular techniques for developing their successors. These results are displayed in Figure 11 and some example responses are provided in Table 7.

In summary, CHROs who are developing internal successor candidates must find ways to develop candidate skills while providing them visibility to key constituencies. CHROs are using challenging/rotational assignments to develop a broader skill base and perspective. Some specific assignments include executive compensation and HR operations. In addition, CHROs are using special projects to give them leadership experience while also providing candidates' visibility to the CEO, the ELT, and the board. In a vast majority of cases, the CHROs indicate that while they do not necessarily have a ready-now candidate (25%), the CEO seems to support the internal candidate being groomed (87%).

TABLE 6. Ways the board gets exposure to the CHRO successor candidates

Comp Committee meetings, annual Board review of People Strategy, informal lunches/dinners.

Presenting to the entire Board at least once a year and attending all Compensation Committee meetings.

Presentations to the Board twice a year, board dinners, social setting.

Breakfast meetings, Board dinners, presentation to ex-comp committee.

Figure 11: What are the top 3 things you are doing to prepare your successor(s) for the CHRO role?

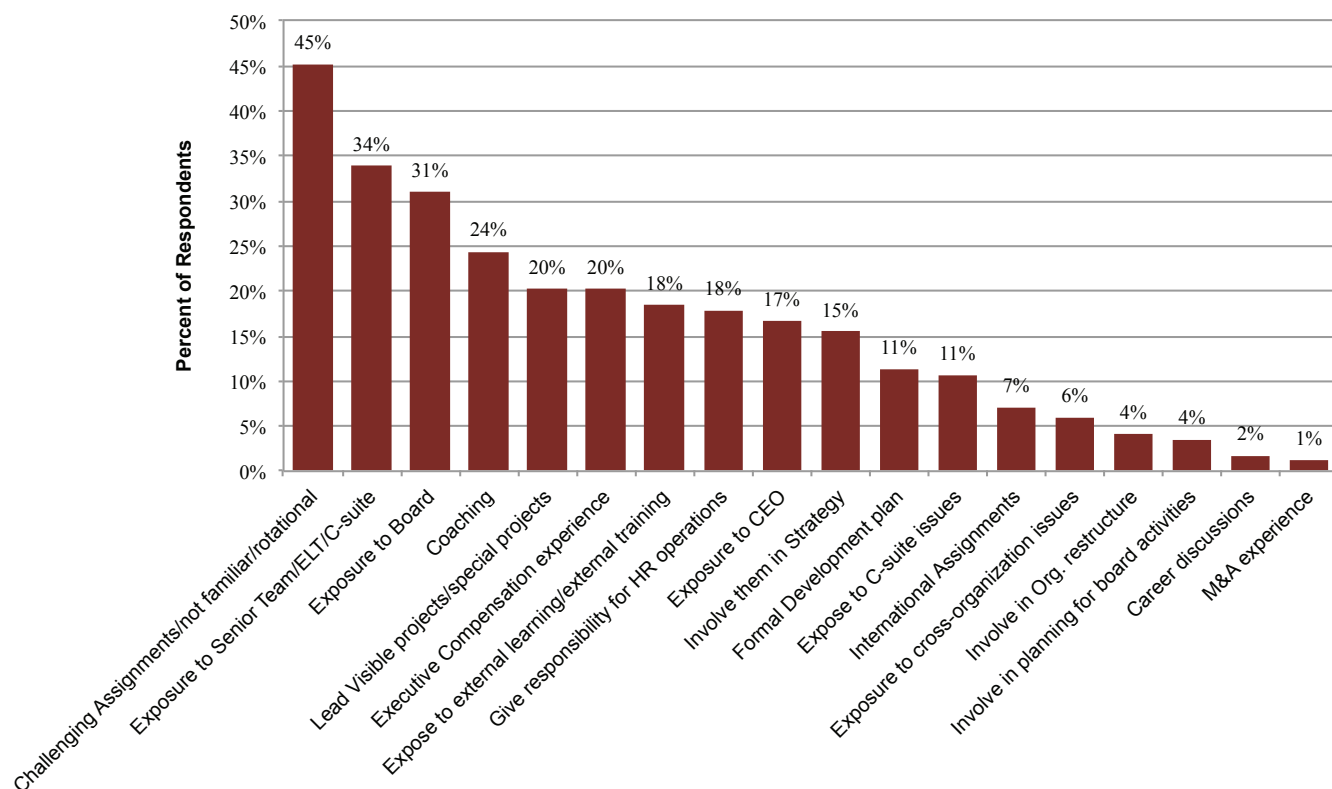


TABLE 7. Ways of preparing the CHRO successor

Involve them in developing strategy. Engage them in taking difficult matters to the ELT for decisions. Expose them to ELT and next layer leaders as much as possible to build relationships and allow them to influence leaders.

The individuals are provided exposure to the CEO and Senior Management team. In addition, they are provided opportunities to brief the executives, lead enterprise-wide initiatives and gain some exposure to staff work needed for the Board. These candidates have had job rotations and increased responsibilities.

Participation in our internal hi-potential leadership development program. External coach to work on improving her soft skills (more clearly demonstrating empathy, relationship building with peers). Planning for 2015 for her to be an observer at a Comp Committee meeting and spend time with VP Total Rewards to improve understanding of Exec Comp.

Special projects, exposure, personal coaching and expanding her role. She is also currently leading an extensive comp and benefit project with broad impacts and implications. She will have the opportunity to present findings and lead the implementation.

Given him expanded accountabilities, giving him exposure to the Board and the operating committee, helping him build an external network, and assigning him work to give him more exposure to technical work that he has not been exposed to.

Giving them large complicated roles. Spending a lot of personal time coaching them and telling them about what I do and why. Reviewing Board materials with them as necessary. Letting them lead key projects in the function.

Conclusion

This report presents the most comprehensive examination of the CHRO succession process from the CHRO's perspective. CHROs described why they believe they were appointed, especially if that appointment came from outside, in which case it was usually due to a lack of a ready successor. They noted that upon entering their role they were least prepared to deal with the board, particularly in the area of executive compensation.

These CHROs have used this experience to develop their internal successor candidates. They have tried to use assignments, many of which they felt

best prepared them (business partner, executive compensation, talent management), to broaden the successor's skills and experiences. In addition, CHROs make efforts to use projects to give successors exposure to those who may play a role in the decision, but more importantly, those who will have to work with the candidate, i.e., the CEO, ELT, and the board. This report, through both the quantitative results and examples, should provide a strong knowledge base from which CHROs can develop the next generation of CHRO talent.

Center for Executive Succession

Executive succession has garnered increasing attention from Boards of Directors, CEO's, analysts and the media. Failures and miscues in making the wrong succession decisions have cost companies in expenses, missed growth opportunities and reputation. In spite of the fact that executive succession presents huge risks to corporations, little is known regarding the challenges, pitfalls and best practices. The sensitive nature of "behind the veil" processes has limited the ability to conduct detailed research into executive succession. Thus, the Darla Moore School of Business at the University of South Carolina has created the Center for Executive Succession (CES) to leverage the world-class faculty research capability and a unique corporate/academic partnership to provide cutting edge knowledge in these areas.


The mission of CES is to be the objective source of knowledge about the issues, challenges and best practices regarding C-suite succession. We seek to appeal to board members, CEOs, CHROs and other C-suite members by providing state-of-the-art research and practice on executive succession.

The corporate/academic collaboration between CES and its partner companies will generate credible, unique and unbiased knowledge to further the effectiveness of executive succession practices in firms.

For more information on becoming a CES partner company, please contact CES@moore.sc.edu.



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The Darla Moore School of Business' new building has generated significant buzz since it opened its doors in August, both for its striking appearance and for the ways it promises to transform business education. Drawing on extensive input from students, faculty, staff and the business community about how space can be configured to optimize business education, the \$106.5-million building is the university's most ambitious construction project to date.

With its many sustainable features, the building is targeting LEED Platinum certification, making it a model for sustainable architecture and sustainable business practices. Its open and flexible design facilitates enhanced interaction and collaboration among faculty and students and makes the building an inviting hub for community engagement. In these and other ways, the building is a physical embodiment of the Moore School's commitment to forward-thinking leadership for the business community.

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Patrick M. Wright

Thomas C. Vandiver Bicentennial Chair
1014 Greene Street
Columbia, SC 29208

803.777.5955

803.777.6876 Fax

patrick.wright@moore.sc.edu

moore.sc.edu/CES

Columbia, SC 29208
803.777.3176

moore.sc.edu

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