

CHRO Quarterly

A Magazine for Chief Human Resource Officers
and Their Teams

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Critical Experiences for Future CHROs

Gartner Human Resources Practice

Editors

Matt Dudek
Caitlin Dutkiewicz
Brian Kropp
Bryan Kurey
Ray LaMotta
Jeanine Prime

Authors

James Cheung
Matthew Dong
Danielle Douglas
Matt Dudek
Tom Handcock
Andrew Kim
Richard Nguyen
Rebecca Palacios

R&A Creative

Senior Graphic Designer

Stacey Phipps

Associate Art Director

Mike Jurka

Editor

Melanie Meaders

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Reimagining HR for 2019

From the Editors

HR leaders know they will need to lead their businesses through significant change in 2019 — likely more than even last year. At Gartner, we have a saying: “The pace of change will never be this slow again.” So it is no surprise HR executives keep telling us they need to move faster, reimagining HR to keep pace with the rest of the business.

But just keeping up isn’t going to cut it anymore. When organizations’ lifespans — and entire industries — are measured in months and years rather than decades, just keeping up is an invitation to be disrupted out of existence.

Nor is it sufficient for organizations to discover the “next big thing.” For so many organizations, discovering one great product, technology, culture or skill that will change their business is the goal. But chasing the next big thing in 2019 will not often lead to sustained competitive advantage. Too soon, everyone else will have copied and improved on what you’re doing. In 2019, an innovative product is not the goal; innovation itself is the goal. It is a constant state of being — the willingness to burn your entire business down to build something better, like Netflix eviscerating its core DVD business with on-demand streaming.

This issue of CHRO Quarterly includes several articles on innovation to help heads of HR reimagine the function and plan for the new realities of their organizations and their functions. Our feature article, “Network Innovation in the Digital Age,” will teach HR leaders three strategies they can leverage to help their organizations be more effective at innovation.

If you missed our annual ReimagineHR conference this year, you can read Gartner Group Vice President Brian Kropp’s key take-aways on HR’s role in leading digitalization. We’ll also share data from our recent Future of HR Survey on the more innovative capabilities heads of HR are bringing into their functions. And we spoke with Michael Arena, chief talent officer at General Motors, about how GM is driving innovation.

We hope in reading this issue you will take away a few ideas for improving innovation in your organization in 2019. Whether you’re developing new ideas for operating your HR function or helping spark the innovation that will change the face of your organization, as an HR executive you are in a great position to lead this drive across the next year.

Network Innovation in the Digital Age

By Matthew Dong

To remain competitive in the digital age, organizations are innovating by:

1 Improving existing products and services

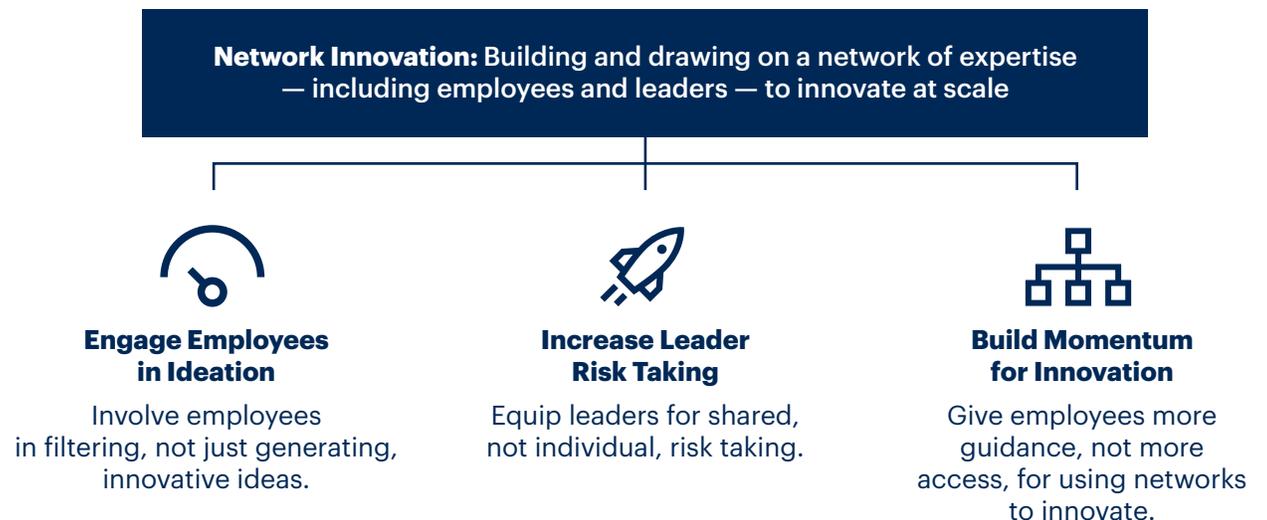


2 Creating new products and services



n = 6,829 business leaders
Source: Gartner 2018 Strategy in the Digital Era Survey

The most progressive heads of HR drive network innovation.





Organizations that pursue network innovation are able to drive higher innovation effectiveness.



Compared to organizations with low innovation effectiveness, those with high innovation effectiveness are:



n = 6,829 business leaders
Source: Gartner 2018 Strategy in the Digital Era Survey

Highlights From ReimagineHR 2018: Preparing Boards for Talent Conversations With Investors

By Andrew Kim

With institutional investors such as BlackRock, Vanguard, State Street and Fidelity collectively owning a 20% stake in S&P 500 companies, they and other institutional investors have a deepening influence on company decision making and direction. As they seek more granular ways to drive long-term company performance and advantage, many institutional investors are focusing on HR-related challenges. For example, they are pressuring boards of directors to report employee exit data, CEO succession planning and talent development processes.

As this interest in HR increases, CHROs must successfully advise boards of directors on addressing talent matters with institutional investors.

At our 2018 ReimagineHR conference in Orlando, we facilitated a discussion with two experts on corporate governance and investor stewardship to learn about emerging demands for CHRO guidance and what CHROs must do to be prepared. Our panelists included Jack “Rusty” O’Kelly, global head of board advisory and effectiveness practice at the executive search firm Russell Reynolds Associates, and Robert Main, head of portfolio company voting, engagement and analysis at the investment management firm Vanguard.

Demand for CHROs’ Guidance

While institutional investors are traditionally known to avoid talent issues and prioritize

business strategic issues (e.g., corporate strategy, financial metrics, mergers and acquisitions), conversations on talent topics are rising in popularity. Rusty O’Kelly kicked off the discussion sharing salient data: Four of the 10 most frequently discussed issues among institutional investors were related to HR, including:

- Setting performance metrics and goals for the CEO
- Executive succession
- Board oversight of company talent development
- Organizational culture

In fact, these topics are expected to rank even higher in the next few years. “If we looked at this same graphic five years ago, none of the topics related to HR would have come close to making it to the top 10,” O’Kelly added.



Beyond conversations shared with institutional investors, investors more generally are discussing talent topics with organizations. According to our analysis of company earnings calls, 69% of company conversations in 2017 were related to talent topics (in both prepared remarks and Q&A sessions).¹ These trends underscore a new and urgent opportunity for CHROs to position their companies' talent development as a key driver to investors.

At Vanguard, Robert Main explained, "Our investors have begun not only taking greater interest in HR but also raising expectations of boards." In addition to managing the CEO, many investors now expect boards to play an oversight role for the company's human capital strategy.

Because most board directors have limited experience in HR (they are most commonly CEOs, retired CEOs and CFOs), CHROs see an increasing expectation and opportunity to fill in those gaps. As leaders of their companies' human capital, CHROs must learn how to prepare boards for investor conversations on topics including effective succession planning at the C-suite level, the impact of company culture on performance, pay disparity and talent development of high-performing individuals.

Institutional Investors Need Details, Not Highlights

An essential lesson raised by our panelists is that CHROs should be prepared to provide more detailed information, not just major highlights of changes in their organizations.

Provide Employee Engagement and Exit Data

Panelists asked for a show of hands from the 50 CHROs in the room: "How many of you are sharing detailed employee engagement survey data with the board?" Roughly four in 10 audience members raised their hands.

"How many of you are sharing exit data?" Fewer than one in 10 attendees kept their hands raised. "If you're not doing it already, you better be ready to share exit data with your board. They *will* start asking you about it," the panelists warned.

To help boards of directors assess and measure their companies' organizational culture, CHROs will be expected to report why employees chose to leave the organization. To that end, CHROs must deeply understand big data and prepare a clear narrative on what employee engagement efforts are working and what areas will need improvement based on exit data trends.

Beyond conversations shared with institutional investors, investors more generally are discussing talent topics with organizations.

¹ For more information, see "Discussing Corporate Culture With the Street."

Plan for CEO Succession and Retention

Another area of focus demanding the board's attention is CEO succession planning. In recent years, new CEOs have had surprisingly high turnover rates. "Within three years, 13% of all CEOs appointed to current members of the S&P 500 have departed their company," cited O'Kelly. As a result of this trend, institutional investors and boards are shifting their attention toward

monitoring CEO succession, planning for future transitions and ensuring organizations can effectively react to unexpected cases of turnover throughout the C-suite.

Before engaging with institutional investors on succession planning, CEOs and CHROs must agree on the successor criteria required for a future CEO and inform the board to ensure a consistent message on CEO succession with stakeholder groups — from investors to potential internal candidates (see Figure 1).

Figure 1: Timing and Type of Talent Information Shared With the Board

Category	Data/Information	Percentage of CHROs Who Report Sharing Data With the Board	Quarters in Which Data Is Most Frequently Shared With the Board			
			First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Leadership	Succession Management Plans	88%		X	X	
	Leadership Bench Strength	85%		X	X	
	High-Potential Employees	68%		X	X	
Engagement	Employee Engagement	82%		X		X
	Employee Turnover	76%	X	X		
	Retention Rate	58%	X	X	X	
Performance Management	Performance Rating Distribution	60%	X	X		
	Workforce Productivity	26%		X		X
Diversity	Workforce Gender Distribution	58%		X	X	
	Workforce Age Distribution	47%		X	X	
Recruiting	Recruitment Plan/Risks	39%	X	X	X	
	Time-to-Fill Positions	22%	X	X		

n = 72
Source: Gartner 2013 Working With the Board Survey

Implications of Institutional Investors' Talent Focus for Board Member Selection

Despite increased scrutiny of talent issues, companies still prioritize current and former CEOs, CFOs and executives with profit and loss ownership over heads of HR. Also, given the natural tendency for this specific pool of candidates to be predominantly men, boards are likely to have difficult conversations with institutional investors that want more gender-diverse boards. These investors may demand a broader range of expertise that can be equally valuable in the board room.

Robert Main stressed that many institutional investors are increasingly focused on board composition. He mentioned, "Boards need more diversity. Any type of diversity will be better."

With more boards joining the "20% by 2020" initiative supporting women on corporate boards and abiding by state laws mandating gender-diverse boards, D&I initiatives are a step in the right direction. However, our panelists noted that potential difficulty enforcing state regulations around board diversity and the low costs of noncompliance may reinforce rather than accelerate the sluggish pace toward board diversity.

Prepare Now for Questions Later

Ultimately, board members will face growing pressure from institutional investors on talent issues. As our panelists stressed, even if your institutional investors are not currently engaging your company's board of directors on talent, they are still very interested in what you are doing. They may simply start by engaging with organizations representing the largest parts of their portfolios or those firms in their portfolios with significant talent issues. Eventually, these investors will ask questions about your organization's human capital strategy.

The responsibility falls to heads of HR to prepare their boards in advance to provide institutional investors with guidance and confidence on their organizations' long-term potential.

"We want people who can constructively challenge and, in the right way, engage with management. Directors are expected to ask tough questions, push and probe and move beyond the information they receive from management," stated Robert Main. So CHROs who advise their boards well will see their organizations obtain the capital necessary for investments central to outperforming rivals now and in the future.



Gartner®



Gartner ReimagineHR
**Our premier
conference for
heads of HR**

Here's what you missed in 2018.

Highlights From ReimagineHR 2018: 5 Ways HR Can Take the Lead in Digitalization

By Staff

In his keynote address at the opening of our October 2018 ReimagineHR conference in Orlando, Florida, Gartner Group Vice President Brian Kropp shared a salient figure with the hundreds of HR executives gathered in the room: 67% of CEOs tell us that if their organizations do not make significant upgrades to their digital capabilities by 2020, they will no longer be competitive. “And if you work for one of the 33%,” Kropp told the attendees, “start polishing your résumés” because those two-thirds of CEOs are probably right.

Digitalization is one of the most pressing challenges businesses face today, and it’s not hard to see why. When CEOs talk about digitalization — in meetings, in employee communications and increasingly on calls with investors — they frame it as a means of driving increased efficiency, productivity and growth. Digitalization helps organizations compete in a fast-paced and constantly changing business environment.

However, our research has shown that over the past five years, employees are exhibiting dwindling rates of discretionary effort: Just at the moment when organizations need to get the best out of their people, fewer of their people are going above and beyond the call of duty (see Figure 1). Meanwhile, labor markets around the world are historically tight, so organizations must work harder to find the right people and hold on to the valuable talent they already have.

As a result of these trends, HR leaders today find that CEOs demand improved performance from employees while employees demand an easier and more seamless experience at work. Employees expect their work experience to match the app-driven, on-demand experience they are increasingly used to in their personal lives. Digital solutions are crucial in meeting these demands, but those solutions involve much

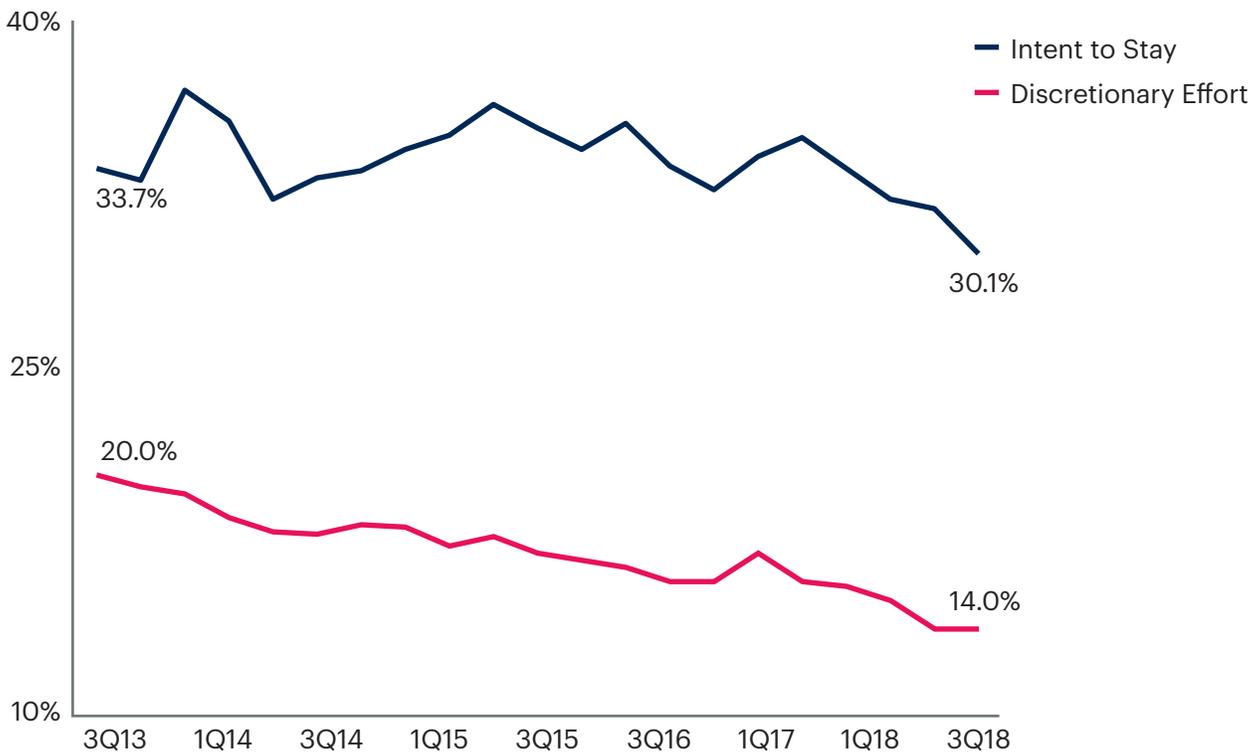
more than merely adopting new technology; organizations must rethink fundamental aspects of the way they work and redesign themselves for a digital world.

HR has an enormously valuable role to play in ensuring a successful transition into the digital enterprise. However, it's not always obvious how to achieve that goal, and many organizations have been going about it the wrong way.

What does digitalization mean to you? Prompted with this question in a poll, the audience responded with words like "efficiency," "easy," "seamless," "simplicity" and "experience." These answers reflect HR's unique mission today of driving business outcomes while — or better yet, by — improving the employee experience. Following are five of the key challenges posed by this new environment and what, in brief, HR can do to tackle them.

Figure 1: Percentage of Employees Reporting High Levels of Intent to Stay and Discretionary Effort, Overall

Global Employed Labor Force



n = 22,043 (3Q18)
Source: Gartner 2013–2018 Global Labor Market Surveys

Today's casual digital candidates fire off an application first and ask questions later.

1. Digitalization Has Changed the Candidate Journey

The problem: Online hiring platforms have made it easier than ever for candidates to apply to jobs. Whereas candidates used to research companies and target a set of prospective employers they were really interested in working for, today's casual digital candidates fire off an application first and ask questions later (see Figure 2). Organizations need to change the way they recruit to ensure they are attracting and hiring the right people.

The solution: HR needs to change the focus of recruiting from courting candidates to driving candidate decisions, first identifying the strongest, most committed candidates and then motivating them to follow through on their applications.

2. Organizations Need Better Insight Into Their People

The problem: In the predigital world, the engagement survey was the gold standard for

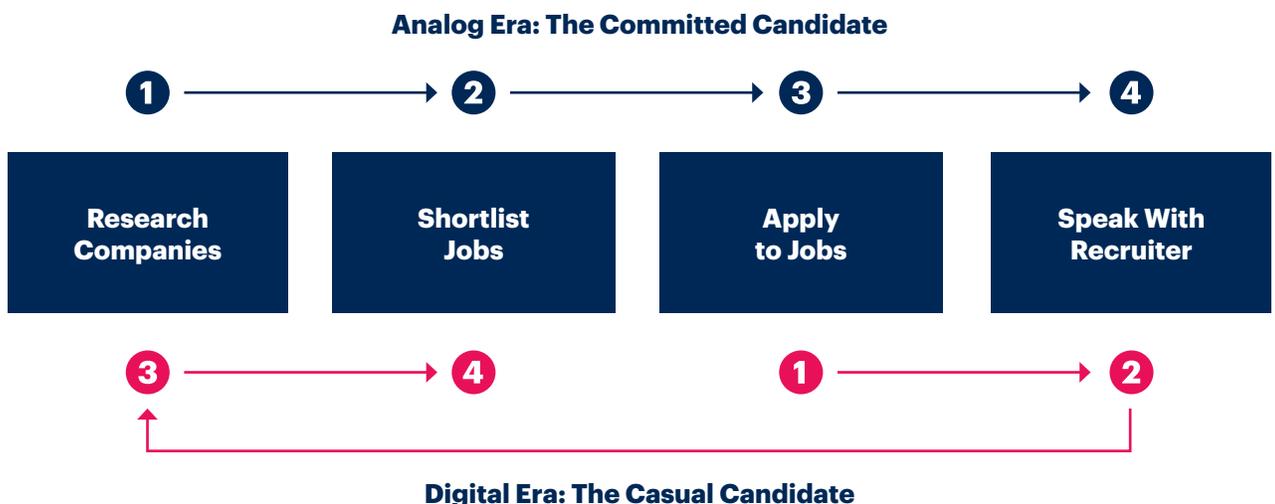
measuring employees' attitudes and behaviors at work. But over the past few years, we've seen more organizations abandon these surveys and adopt new, more experimental digital methods to measure what their employees think and do in real time. With new sources of data and methods of collection emerging every year, employers have more options for gaining these insights, but some of these options could violate employees' privacy and trust if used improperly.

The solution: HR leaders can no longer rely solely on asking employees for feedback; instead, they must start listening to what their employees are already saying.

3. Work Is Becoming More Interconnected

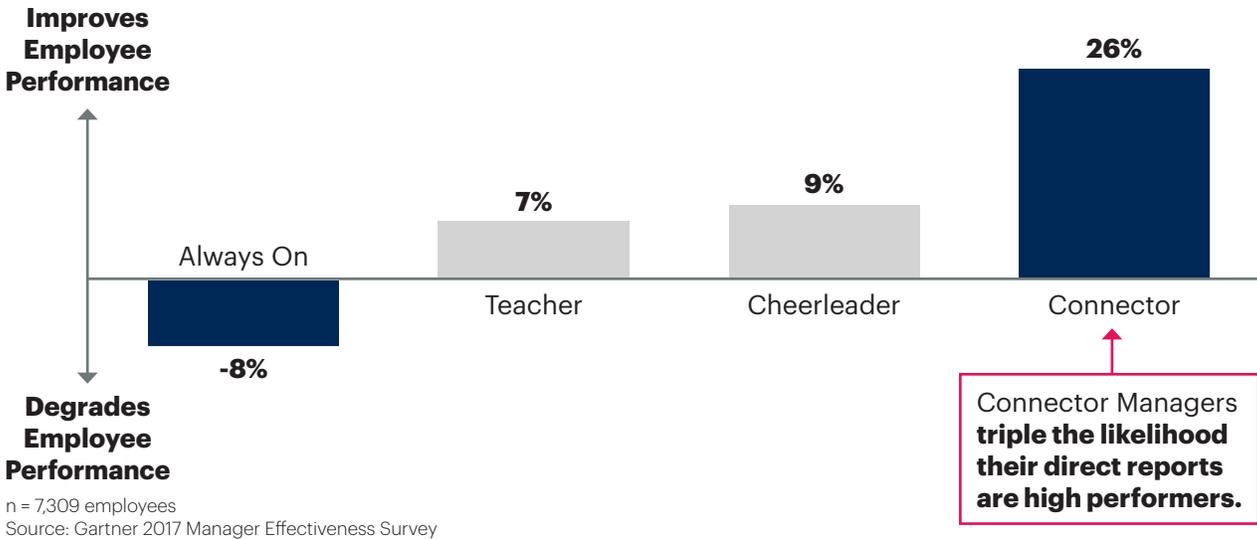
The problem: More of organizations' work now spans multiple functions instead of being siloed in a specific department. Rather than traveling vertically along the chain of command, decision-making processes are increasingly horizontal. Managers who are used to operating

Figure 2: Analog and Digital Candidate Decision Journeys



Source: Gartner (January 2019)

Figure 3: Maximum Impact on Employee Performance by Manager Type



in a traditional command structure often don't know how to manage in this more distributed work environment.

The solution: To maximize the effectiveness of cross-functional management, HR has to focus on developing Connector Managers who can steer their direct reports toward answers and support throughout the organization, rather than always-on managers who attempt to provide continuous coaching and support to employees themselves (see Figure 3).

4. Self-Service Technology Isn't Delivering the Desired Results

The problem: The vast majority of organizations expect to invest in new technologies in the coming two years, and with thin technology budgets, HR functions are under pressure to maximize the benefits of every new solution. The trend in recent years has been to adopt self-service solutions that allow employees to access information and tools anytime and anywhere they want. These self-service technologies, however, have left employees feeling more overwhelmed than empowered.

The solution: Start focusing on user experience instead of self-service. Technology that delivers an effortless experience for employees and managers has a greater positive impact on performance than technology that offers on-demand access.

5. Performance Management Needs to Get Faster

The problem: Every CEO — 100% of those we surveyed — wants HR to improve the performance management process. HR has been working on just that for years now, and most organizations are still making changes. These efforts usually focus on improvements such as simplifying forms or increasing the frequency of feedback, but the fundamental challenge remains that our performance management systems are not fast enough to match the accelerating pace of business today.

The solution: The evolution of performance management needs to go beyond the way we evaluate our employees' work and encompass the way we set goals for them. A more dynamic goal-setting process may be the missing link in addressing this essential challenge for the digital enterprise.

Platform HR: How the Platform Economy Could Revolutionize HR

By Matt Dudek and Tom Handcock

Platform businesses — companies like Airbnb or Alibaba that create value by facilitating exchanges between two or more user groups — have continued to grow and disrupt industries, particularly as digital business transformation accelerates. To remain competitive in the face of these threats, more businesses are starting to borrow and adapt elements of the platform model for their own strategies. HR functions should consider doing the same to create talent management experiences that are more resource-efficient and more effective at aligning organizational and employee career objectives.

Professors Geoffrey Parker and Marshall Van Alstyne recently [wrote about](#) how platform business models are moving from the margins to the mainstream of corporate strategies. A key driver behind this trend is the emergence of technologies that allow organizations to facilitate transactions that were previously impossible or impractical. The authors highlight five platform business principles drawn from a recent MIT summit, two of which relate directly to the talent implications of platform businesses:

- Having “data-driven, AI-savvy platform talent”
- Being able to “build value through diversity”¹

Parker and Van Alstyne even highlight how one organization is “drawing on platform principles to connect demographic groups that are underutilized and underrepresented in the tech community with companies that are looking for talent.”¹

For heads of HR, one take-away from the above may be that their organizations face the same talent challenges as disruptive platform businesses. Yet CHROs might also draw a more radical and empowering conclusion: Heads of HR cannot effectively drive the significant organizational changes required to compete in a disruptive environment when their functions still operate like the more traditional businesses that new business models (such as digital platforms) threaten to replace. HR leaders should actually consider applying the platform model to transform HR itself.

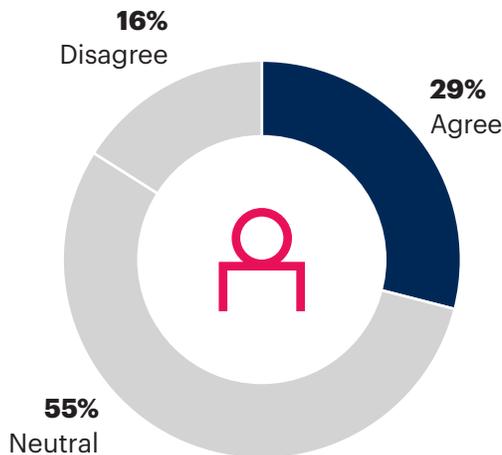
HR functions today are typically structured on a three-part model of HR business partners, centers of excellence (COEs) and shared services. These pieces operate linearly:

1. HR business partners seek out and understand business and workforce needs.

- COEs develop policies, talent management programs or other services and solutions.
- Different parts of the HR function, including shared services, work together to promote adoption and consumption of what the COEs create.

This linear process often results in long lead times and programs, interventions or policies that underdeliver on business and workforce needs. In fact, our 2018 Digital Employee Experience Survey revealed only 29% of employees agree HR understands their needs (see Figure 1).²

Figure 1: Agreement That HR Understands Employees' Needs



n = 5,873 employees
Source: Gartner 2018 Digital Employee Experience Survey

Clearly, HR executives cannot remain complacent with their current operating models. Three characteristics underlying the power of platform businesses represent significant opportunities for HR organizations to become nimbler and deliver more value to the organization:³

- Platforms generate value through networks, not assets.** Platform businesses are nimble and scale quickly because they have fewer capital investments than traditional businesses. Traditional HR functions usually focus on acquiring significant technology assets that are expensive and can take a long time to set up and deliver results. Under a platform model, HR could take advantage of technologies that already exist in the organization. Or they could

even motivate the workforce to develop the technology themselves. For example, some companies are experimenting with coding challenges to develop future workforce skills and new digital capabilities for the business. This approach could be applied to HR.⁴

- Platforms focus on facilitating exchange, not delivering solutions.** Instead of selling a traditional, tangible product, platform businesses enable high-value exchanges, using financial and nonfinancial incentives to motivate sellers and buyers to participate in the market. Despite HR's increasing focus on employee experience, it still focuses too much on driving employee and manager compliance with HR processes. HR as a platform would concentrate on optimizing talent management interactions (e.g., peer feedback) between people at all levels of the workforce rather than optimizing the function's interactions with the workforce.
- Platforms prioritize efficiency from the customer's perspective.** Platform businesses obsess over the quality of interactions within the network of producers and consumers or buyers and sellers on their platforms. If those interactions are inefficient at connecting the network and delivering results in a timely manner, people may stop using the company's service. In a typical HR function, the metrics staff focus on are mostly related to employee engagement and compliance with processes, not on how leaders, managers and employees rate talent management interactions with their peers. HR as a platform would avoid perpetuating a mindset of only "getting things done" and instead promote one focused on "getting the right business outcomes."

This is a big conceptual shift for HR functions accustomed to thinking about platforms only as technological HR systems (e.g., HRIS). Now they must invert their phrasing and thinking, going from HR platforms to "Platform HR." This likewise requires changing HR operating models to deliver stronger workforce capabilities in the future.

So what is the right way to define Platform HR? Here is one proposal: Platform HR is an HR function that facilitates valuable talent interactions between individuals throughout the organization by connecting them as

seamlessly as possible — and using insights from these interactions to improve organizational outcomes (see Figure 2). This contrasts with most current HR functions that administer the formal processes for managing people in the organization.

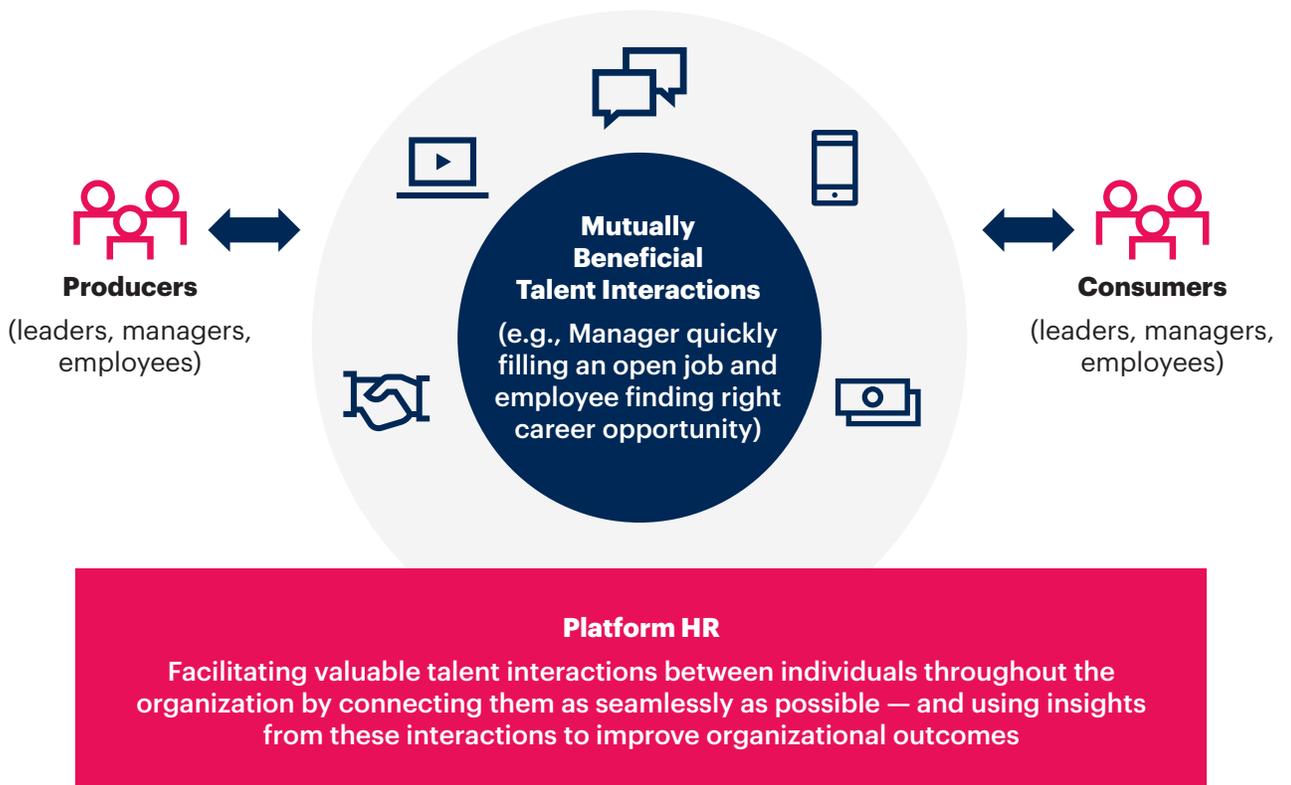
Just as a commercial platform connects producers and consumers within its user base, Platform HR treats its own users (employees, managers and leaders) as producers, not just consumers, of talented-related information, tools and services such as feedback, training or recognition. This producer point is critical.

Airbnb, for example, does not own any hotel rooms; instead, it puts in place mechanisms to ensure rooms are made available, of a good quality and correctly priced. Airbnb thus shapes

what producers of rooms do, but it does not produce any rooms itself. What if HR did not own any HR processes, but rather had employees create the processes and products themselves (while actively channeling employees in the right direction with incentives and support)? The role of Platform HR is to ensure these interactions happen seamlessly and are highly valuable to both the producer and the consumer.

In practice, thinking of individuals outside HR as producers of talent management information and services would be the next generation of efforts currently underway in areas such as performance management. More companies are shifting toward regular performance conversations and check-ins instead of annual reviews that intimidate employees and managers alike.

Figure 2: Platform HR



Source: Gartner (January 2019)

Yet much remains to be done to facilitate this evolution, particularly in building the value of these conversations or exchanges through incentives. For example, if peers and managers must provide more feedback more frequently, what incentives exist to ensure they provide it at the right quality and at the right time? From a “consumer lens,” do employees actually use this feedback, and does it improve performance?

Or, looking to other talent management issues such as internal mobility: Do managers looking for talent and employees looking for new jobs inside the company agree they can easily find each other? Can they find the right opportunities at the right time? How much friction exists in making an internal transfer and how can HR reduce it? These are the types of questions Platform HR leaders would ask.

Our data shows a large majority of organizations have adopted or are adopting the three-part, linear HR operating model discussed above. Yet about one in 10 heads of HR is now moving beyond this model to explore entirely new ways of working. And more are likely to follow, with six in 10 CEOs rethinking the value of the HR function.⁵ Given how many of those CEOs worry about disruptive threats, Platform HR could help address their concerns.

With a keen focus on creating high-value talent management interactions between individuals throughout the organization, Platform HR functions could be better positioned than most HR organizations to create real business value.



Our data shows a large majority of organizations have adopted or are adopting the three-part, linear HR operating model discussed above. Yet about one in 10 heads of HR is now moving beyond this model to explore entirely new ways of working.

¹ “How Platform Strategies Continue to Create Value,” MITSloan

² For more information, see “Digitalizing HR to Improve the Employee Experience.”

³ These characteristics are based on “The Platform Manifesto,” by Sangeet Paul Choudary

⁴ Read in our 4Q18 CHRO Quarterly about how one company used a Tour de France-inspired coding challenge (“Le Code to France”) to start reskilling its workforce while delivering new solutions to its customers.

⁵ “60% of CEOs Are Rethinking Their HR Function,” PwC

Network Innovation in the Digital Age

By James Cheung

The digital age is characterized by an industrial revolution brought on by an information-based economy. Organizations are racing to leverage the vast quantity of data available to bolster existing businesses and, in many cases, creating novel businesses. As a result, the business environment is faster-paced and more competitive than ever.

CEOs are worried about their organizations being “Amazoned” or “Ubered” and are looking to their own digital transformations as a solution. Thus, C-suite leaders are charged with digitalizing their functions in order to allow their organizations to remain competitive in the digital business environment. In fact, our data suggests organizations will spend \$1.7 trillion on digital transformation in 2019.

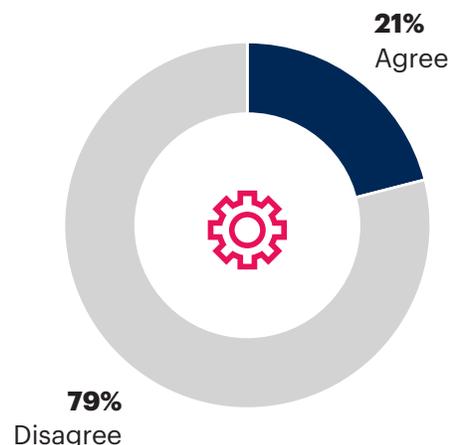
CHROs, in particular, are tasked with creating a talent strategy for the digital age. CEOs are charging them to build and buy digital talent — talent with specialized technical skills or strategic experience in a digital environment — in order to transform their organizations. Therefore, CHROs are investing in training employees and leaders for digital opportunities and are recruiting candidates with specialized technical skills.

However, it is becoming harder to build and buy talent. As business trends shift, required skills are constantly changing, making it difficult

to develop training and hiring strategies. And demand for digital talent is vastly higher than the current supply, making these candidates very expensive to acquire and challenging to retain. CHROs are realizing that their current strategies are not working and are looking beyond building and buying digital talent to remain competitive.

Our survey of HR leaders revealed that only 21% agree current build and buy approaches are helping them adjust to the demands they are facing (see Figure 1). Thus, CHROs are spending more money, time and effort on strategies they do not believe are working.

Figure 1: Agreement That Current Practices Help HR Leaders Adjust to Changing Demands in a Digital Business Environment



n = 76 HR leaders
Source: Gartner 2018 HR Digital Strategy Benchmarking Survey

Innovation Is the Key to Digital Success

Something has to change. Calls with heads of HR and a review of thousands of earnings call transcripts have revealed that the build and buy strategies called for by CEOs are not truly the best courses of action. These talent levers have been a traditionally reliable way for HR to solve an organization's personnel challenges, but our research reveals that "traditional" HR approaches won't cut it in the current business environment.

Instead, a common trend arose time and time again throughout our research process. Earnings call analysis revealed that CEOs are really asking for increased innovation. They believe building and buying digital talent are the best ways to generate new ideas for their organizations and thus have charged CHROs to do so. However, we believe the strategy of building and buying talent is a means to an end — that end being new innovative ideas that can spur digital transformation of the organization.

To support this claim quantitatively, we developed a new metric for measuring an organization's innovative performance.

Innovation Effectiveness and Its Benefits

To measure organizations' effectiveness at identifying innovation opportunities and determining which opportunities to pursue, we created a model called innovation effectiveness (IE). Compared to those with low IE, organizations with high IE:

- Are 1.35 times more likely to meet their employee performance goals
- Are 1.33 times more likely to meet their profit goals
- Are 4.49 times more likely to be ahead of peer organizations in their ability to use technology and data
- Are 1.64 times more likely to have successful digital transformation efforts

While many organizations are likely already innovating to some degree, it may not be benefitting their overall IE. Some organizations give employees time separate from work to think of ways to benefit the organization; others



Calls with heads of HR and a review of thousands of earnings call transcripts have revealed that the build and buy strategies called for by CEOs are not truly the best courses of action.

hold hackathons and idea competitions to spur idea generation. However, our data shows this individual innovator strategy only raises an organization's IE by 1%.

Organizations are also increasingly setting up dedicated agile innovation teams in order to generate ideas and fail fast. Though this is becoming more common, this team innovation strategy only increases IE by 6%.

Critical examination of these innovation strategies reveals three obstacles to their success:

- Too few employees actively engage in generating ideas. Relying on individual contributors and innovative teams limits the pool of innovators and diversity of expertise.
- Leaders' risk aversion stifles innovation. Even with encouragement to take risks themselves, individual innovators and innovation teams lack the high level of influence needed to convince leaders to take risks on their disruptive ideas.
- Innovative ideas lack momentum. Although individual innovators and innovation teams may be dedicated to their own ideas, those ideas get stifled and fail to scale when others throughout the organization are not bought in.

Network Innovation Wins

Organizations should instead seek to implement innovation strategies that are based on networks of employees within the organization. These network innovation strategies allow organizations to draw on a network of expertise, including employees and leaders, in order to innovate at scale. Network innovation:

- Increases employee engagement in ideation by giving them more visibility into the ownership of ideas
- Reduces leader risk aversion by equipping them to apply their risk-taking skills in today's increasingly interdependent decision-making context

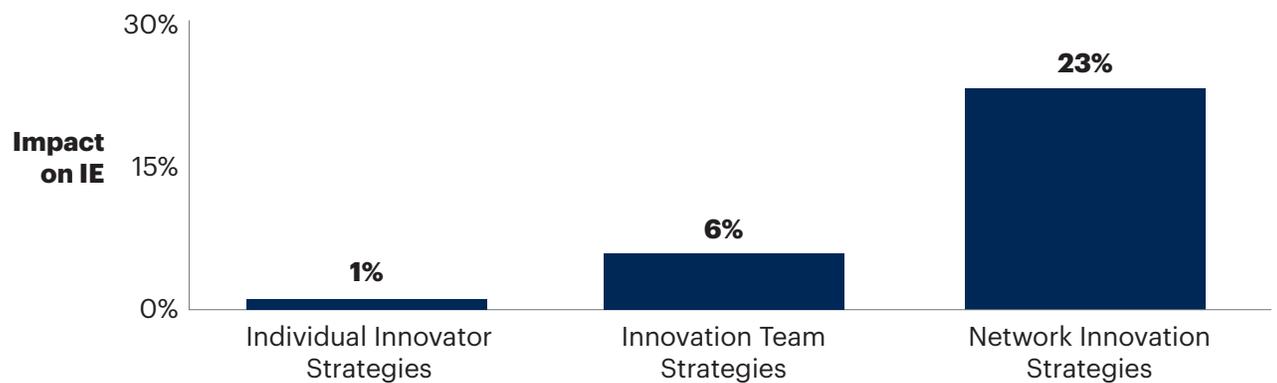
- Builds momentum for innovation by ensuring employees know with whom to connect to develop and scale new ideas

Unlike individual and team strategies, network innovation increases IE by 23% (see Figure 2).

Increase Employee Engagement

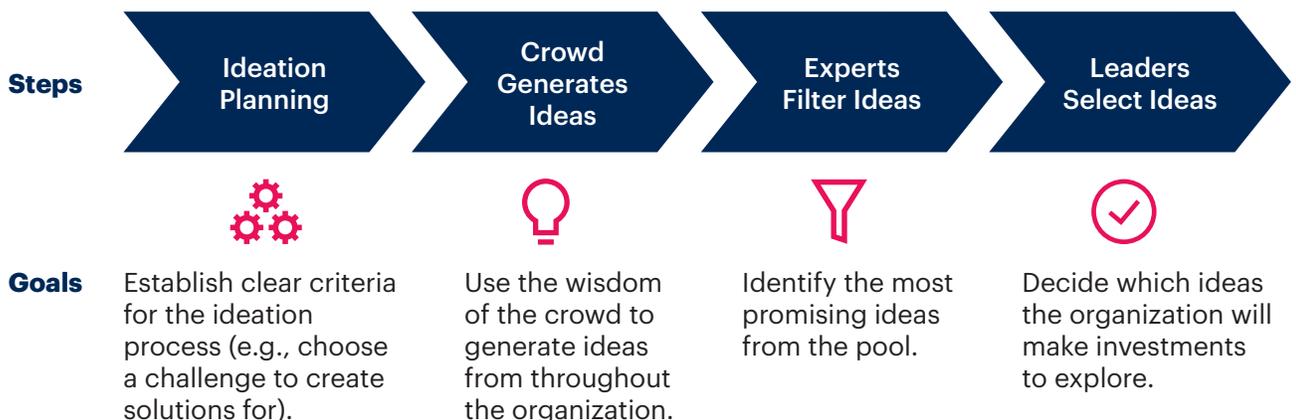
Leaders can apply the open-ideation component of network innovation to their ideation processes in order to bolster employee engagement in innovation. To survive, organizations must come up with disruptive ideas, and many organizations already use their employees to come up with disruptive ideas in the form of hackathons and crowdsourcing platforms.

Figure 2: Average Impact of Talent Strategy Types on IE



n = 6,829 business leaders
Source: Gartner 2018 Strategy in the Digital Era Survey

Figure 3: Typical Ideation Process



Source: Gartner (January 2019)

In the typical ideation process, ideas are first generated by personnel. Then those ideas are filtered, usually by decision makers. Finally, the best ideas are selected for future implementation (see Figure 3).

One step in this process can be particularly disengaging to employees: When experts filter employee ideas — during a crowdsourcing competition, for example — the lack of visibility, limited ownership and long evaluation times can all reduce employee engagement in the innovation process, thereby leading to fewer innovative ideas in future ideation campaigns.

To solve this problem, organizations must involve employees in not only idea generation but also idea filtering. By involving employees in the filtering process as well as the generation process, organizations increase employee engagement in innovation. The innovation process will also benefit from the diverse perspectives refining the rough ideas.

Reduce Leader Risk Aversion

The second key component of network innovation is equipping leaders for shared, not individual, risk taking. Leaders already know they must take risks to succeed in the digital age. In fact, 65% of leaders we surveyed believe bold, wide-ranging acts are necessary to achieve the organization's objectives in the digital age. However, only 39% of leaders agree senior leaders consistently pursue ideas that disrupt the status quo.

HR leaders recognizes that business leaders are not always equipped to take risks, so they focus on building individual leader risk-taking skills. They update competency models and introduce new trainings in order to meet their CEOs' demands. While these strategies are well-suited for improving individual leader risk taking, risk taking is more interdependent in the digital age, as leaders increasingly consider risks with cross-functional impacts.

The solution is to equip leaders for shared risk taking. This entails enabling leaders to identify and discuss their individual and collective decision-making tendencies so they can take action as a group. It also equips them to fully consider and determine the trade-offs they will make.



These strategies work better in the digital age, as they allow leaders to better understand the repercussions of risky decisions in an age of increasing uncertainty. As a group, leaders can act in concert when taking risks to achieve disruption.

Build Momentum for Innovation

The final component of the network innovation strategy, building momentum for innovation, allows organizations to realize the result of the innovation process. Organizations often struggle with innovation because it can be stifled as ideas lose steam. Momentum is critical to successful innovation, which means barriers to ideation must be proactively removed.

Three of the main barriers to innovation are:

- The “Not Invented Here” Syndrome — Ideas do not survive outside small pockets of the organization.
- Ownership Aversion for New Ideas — Ideas get passed around from person to person with no resulting action.
- Operational Inertia — Ideas lose traction when they conflict with existing business processes and routines.

To sustain momentum and bypass these barriers, HR has encouraged employees to make the right connections. For example, HR clarifies business connections and highlights employees whose jobs are centered on innovation. Organizations also help employees leverage their informal connections, such as friendships within the organization, to drive innovation.

But while both strategies help a little, they ultimately fall short. Leveraging formal and informal connections often still leads to a slowing innovation process, which ultimately kills the momentum of disruptive ideas. The most effective solution is to give employees specific guidance on using networks for innovation.

General Motors has effectively implemented this strategy. By defining the types of social connections employees need to drive innovation and deliberately managing them so employees know whom to work with, General Motors has successfully turned many innovative ideas into reality.

To learn more about providing guidance on using innovation networks, take a look at what General Motors is doing in our article, “Fueling Innovation Through Social Connections, With Michael Arena, Chief Talent Officer of General Motors” (Page 23).

Conclusion

To compete in the digital age, companies must become more effective at innovating disruptively — at speed and at scale. Filling digital skill gaps is not sufficient; HR must put the right talent strategies in place to leverage the innovation potential of the entire workforce — both technical and nontechnical. As a result, CHROs must leverage network innovation strategies to successfully meet the mandates of their CEOs.

Fueling Innovation Through Social Connections

With Michael Arena, Chief Talent Officer of General Motors

By Richard Nguyen

More than ever, companies face existential threats from both existing competitors and unforeseen industry disruptors. In his latest book, “Adaptive Space,” Michael Arena, chief talent officer at General Motors, warns organizations that a lack of agility is a “kiss of death.”

Organizations are designed to drive operational efficiencies rather than changing the way work gets done. By focusing on core operations over innovation, today’s industry leaders can be disrupted tomorrow. Innovative ideas might threaten essential core operations, but they are necessary for survival. Organizations that continually implement these innovations at scale are best-positioned to continually adapt to an ever-evolving digital business environment. At the speed by which others are scaling innovation, companies face no choice but to become more adaptive to change or risk being left behind.

It is difficult for innovative ideas to flourish when most organizations are designed in static organizational structures. Such order makes sense for preserving the core business, but it stifles opportunities for employees to gain momentum for their own innovative ideas. Innovation is ultimately a social phenomenon; it relies on a network of talent to foster and spread

ideas, which often sprout at the very edges of the organization.

Innovations developed in peripheral pockets or independent hubs can quickly die without the proper social support. With the power and expertise of an entire network behind them, however, innovative ideas can gain the momentum they need to compete against the business’s core operations.

To become more adaptive is to arrange your network’s talent in a way that protects and spreads their innovative ideas. While it is difficult to change an organization’s structure, HR is uniquely equipped to identify and guide the critical talent in employees’ networks to help scale even the most disruptive ideas. HR can lead the charge in building an “adaptive space” where the appropriate social connections for innovation are clear and critical talent can move and collaborate across organizational siloes.

Figure 1: Challenges for Individual Innovators



Source: Adapted from General Motors

The Solution

Network-driven innovation starts at the fundamental level of the individual employee. Many organizations often fail to provide clear pathways for the employee to start developing a new idea (see Figure 1).

To help employees effectively leverage their networks, HR has conventionally sought to give them more network access — for example, by creating formal opportunities for cross-functional collaboration. HR may also clarify or redesign the formal organizational structure to position employees to develop innovative ideas — for example, through dedicated innovation hubs or teams. Or HR might provide communication, tools and objectives to motivate greater use of informal network connections.

While these efforts to expand network access might help employees along a path to innovation, they can still fail to fully usher ideas into the core business. A prescribed network structure, whether formal or informal, has a limiting effect on employees' ability to access the network expertise they need for innovation. Even with more freedom and network access, employees can actually find themselves lost and misguided because they still won't understand who to reach out to or when.

Network access alone is insufficient when employees aren't aware of what comprises proper innovation expertise and where to find it.

At General Motors, HR deliberately manages social connections where employees can play clear roles in supporting innovation in their networks. These connections give employees a clearer sense of who to work with and when, which offers a simple framework for anyone to reference and leverage throughout the process of implementing new ideas. Such guidance exceeds the benefits of network access because it provides clear and centralized innovation pathways for employees to participate in, no matter where they are in the organization.

In our discussion, Arena identified four essential social connections HR should deliberately cultivate to gain momentum for innovative ideas:

- Discovery Connections — Interactions that help employees devise novel ideas and new insights
- Development Connections — Local interactions within teams that elaborate on and refine new ideas
- Diffusion Connections — Interactions that help scale developed ideas across the broader organization
- Disruption Connections — Interactions that mitigate against the stifling effects of formal organizational structure and enable integration into the core business

Organizations can adopt the following strategies to guide employees to take full advantage of these social connections and build the momentum for their innovative ideas to take hold.

Designate Network Roles That Drive These Social Connections

To form these key social connections, employees should understand their unique role in their own networks and play to their strengths. For instance, not everyone can consistently maintain numerous relationships within and outside silos. Instead of granting individuals more network access and allowing them to freely find the innovation expertise they need, make visible the specific peers and colleagues in the organization who are well-positioned to support these efforts.

Providing higher-level guidance on how to use their networks nudges employees to engage with different kinds of expertise and parts of the organization they might not have otherwise known about.

General Motors leveraged the following four network roles to drive social connections:

- **Connectors** — These employees have many relationships within their core groups and are well-positioned to get their ideas adopted locally. They are also highly trusted within their primary teams.
- **Challengers** — These employees provoke change by tapping into external trends and information while inciting debate to enhance ideas and moderate network buzz around ideas.
- **Brokers** — These employees have relationships across many groups and can bridge organizational siloes to transfer new ideas and insights.
- **Energizers** — These employees can get ideas noticed by creating a reputation and spreading it quickly across the network.

To fill these roles, identify employees who meet these specifications and make them aware of the unique contributions they can make to driving innovation. While Arena has developed a proprietary “Network Role” self-assessment, HR can additionally leverage leader and employee interviews, surveys and even network analysis to

understand how employees engage in the local and broader organizational network.

After identifying employees’ network roles, provide tailored guidance and suggestions on how employees can best perform in their designated roles. For example, an employee may be aware of personal strengths as an energizer but still have opportunities to improve on potential pitfalls, such as advocating ideas before they are fully developed. HR can provide suggestions to prevent such pitfalls from hindering employees’ roles (see Figure 2).

Figure 2: Sample Information to Support Energizers in Optimizing Their Network Role



Qualities Energizers Need to Manage

- Not thinking critically about the big picture of the organization’s overall strategic goals
- Not expressing a personal opinion if it might offend someone
- Advocating ideas that are not fully developed



Suggestions for Energizers

- Think about how innovative ideas align with organizational goals.
- Review strategic plans.
- Help others see the value in an idea.

Source: Adapted from General Motors

Provide Opportunities for Employees to Create Social Connections

Even if employees are made aware of the role they can play to support innovation, they may find it difficult to naturally build the other innovation expertise they need to perform to their strengths. This may be especially true for larger organizations with structures where innovation expertise is sparsely distributed among disparate siloes.

HR can facilitate the formation of pivotal social connections by creating opportunities where employees use their innovation expertise to help build momentum for new ideas. For example, General Motors facilitated events with a focus on forging different types of social connections, selectively inviting employees with the relevant network roles and challenging invitees to discuss a specific challenge or innovation together. To deliberately build diffusion connections, General Motors regularly brings together both connectors and energizers to discuss how they might best scale ideas (see Figure 3).

Equip Employees to Leverage Social Connections

Give employees trainings and materials that will enable them to take full advantage of the social connections at their disposal. Keeping employees informed with standardized, structured resources will help them sustain their ideas' momentum.

For instance, General Motors provided connectors with materials such as connection diagnostics, reports on network roles, design-thinking interview templates and agile methodology trainings. This preparation equipped connectors with a framework on how to identify and develop the social connections they needed while highlighting opportunities for them to garner experience with new ways of working.

Conclusion

Social connections are key to sustaining the momentum and development of innovations throughout an organization. Employees at General Motors play a pivotal role and can lend their unique expertise in every step of the innovation process, from the discovery of a new idea to its implementation into the core business. By identifying and guiding innovation expertise, organizations can build networks that easily adapt to changes in the environment, produce disruptive ideas and help the business remain competitive going forward.

As a testament to the important role networks play in driving innovation, Arena cites Steve Jobs as a role model: "He was a broker ... His network did his work for him." Arena refutes the mythical perception that Steve Jobs was a lone innovator when, in reality, he made effective use of his network to champion and accelerate disruptive ideas.

Figure 3: Agenda for a General Motors "Tipping Forward" Event



1 Who Participates: *Connectors and Energizers*

2 What Occurs

9:00 am **Part 1:** Connectors have 20 seconds to present innovations they've been developing in their teams.

1:00 pm **Part 2:** Energizers and connectors discuss ideas; energizers find connectors who have ideas they are interested in and learn more about those ideas.

3 Objective

Share innovations employees have been developing (e.g., regarding the luxury car experience), and create diffusion connections to find ways to scale them.

4 Outcome

Energizers go back to everyday work and share ideas to find opportunities to scale the best ones.

2 Emerging Capabilities for CHROs to Consider Entering 2019

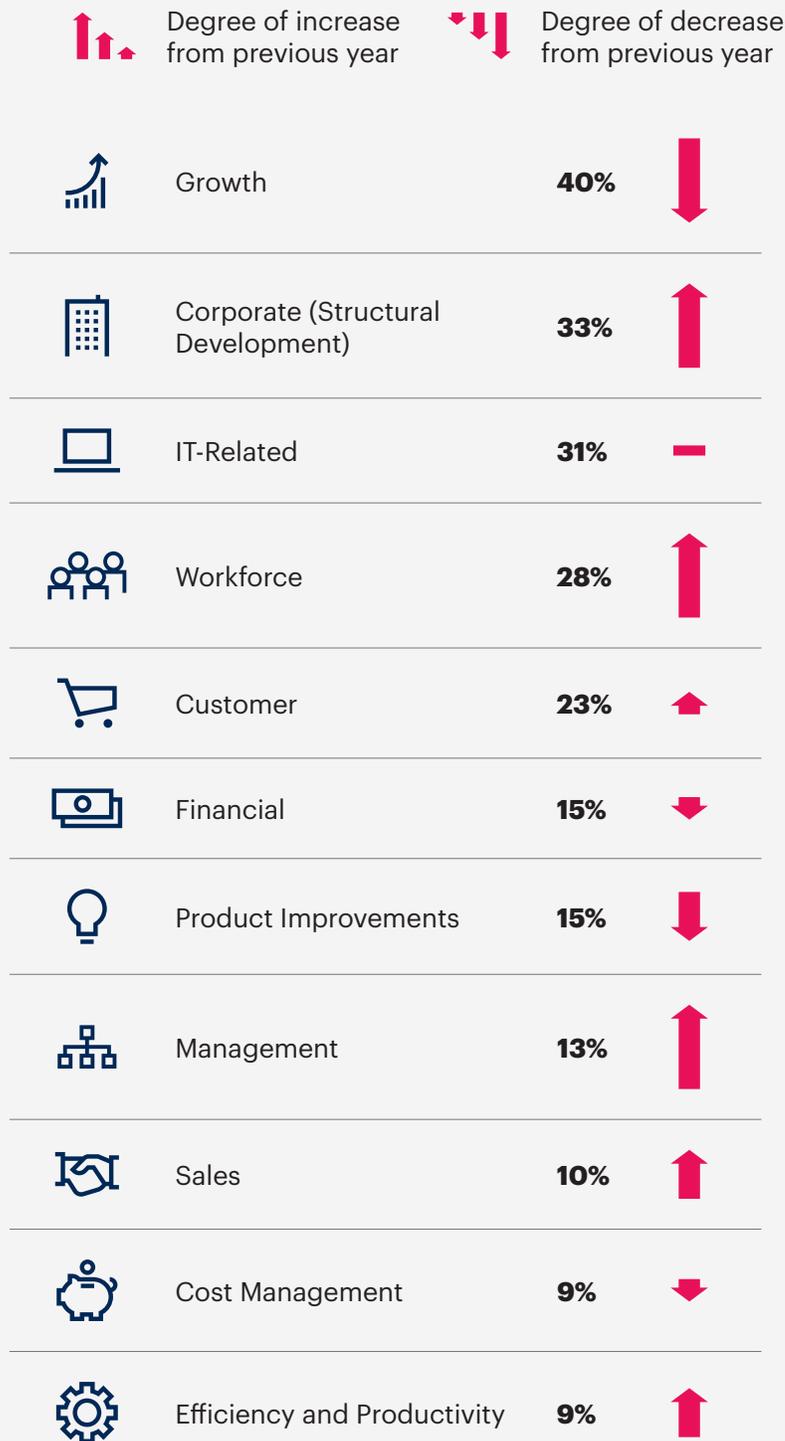
By Danielle Douglas

As CHROs are preparing for the year ahead, they recognize the demands being placed on them as a result of shifts in the business environment, such as disruptive competition, ever-changing customer demands and new technologies. As a result, many HR leaders are experimenting with new capabilities to drive success for the HR function.



Figure 1: CEOs' Top Business Priorities

Percentage of Responses and Degree of Change From Previous Year



n = 460
Source: Gartner 2018 CEO and Senior Business Executive Survey

This is timely on the part of CHROs because the pressure on them is poised to intensify in 2019. More specifically, these shifts are causing CHROs to experience increasing pressure from their CEOs and from employees. For example, in our survey of CEOs,¹ workforce rose three spots in just one year to No. 4 in their top business priorities (see Figure 1).

From the employee side, compared to three years ago, employees expect more from their employers, including flexible work arrangements, more autonomy and easier options for completing routine tasks.²

HR Leaders Seeing Returns From Emerging Capabilities

HR functions continue to look to improve traditional capabilities, but they are also experimenting with emerging capabilities. The list of emerging capabilities to turn to is growing, ranging from chatbots to hackathons. But which are the most effective?

In a recent survey of some of the most common capabilities discussed for HR today, CHROs identified agile product development (64% reporting success) and gamification (63% reporting success) as the top two capabilities they have seen positive results from in the HR function (see Figure 2).

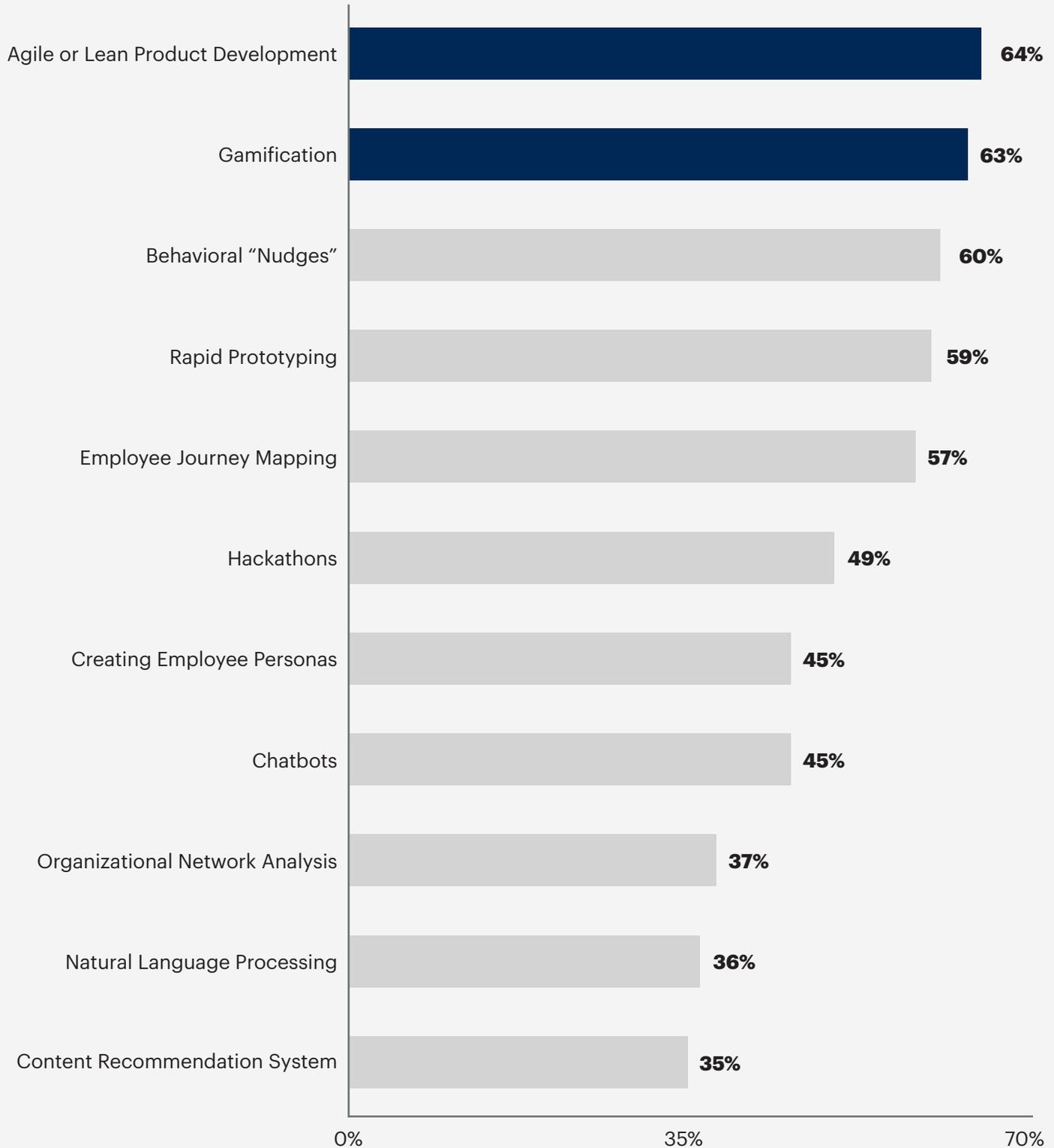
Employees expect more from their employers, including flexible work arrangements, more autonomy and easier options for completing routine tasks.

¹ Gartner 2018 CEO and Senior Business Executive Survey

² Gartner 2018 Digital Employee Experience Survey

Figure 2: Success of HR Function Experiments

Percentage of CHROs Reporting Positive Results



n = 253 heads of HR
Source: Gartner 2019 Future of HR Survey

2 HR Capabilities to Adopt Now for the Future of Work

Agile product development and gamification ranking as the top two capabilities may not be a major surprise given the prolific discussion of each in popular press. However, less than 30% of HR functions have adopted either (see Figure 3).

This may be a function of uncertainty; as one CHRO told us, “Our team has discussed almost anything you can think of, but we don’t always pull the trigger because we don’t know what’s helpful or what’s hype.” However, we know CHROs want to try new things, and we now know that CHROs are seeing results and we have a better understanding of what may have staying power.

While a CHRO’s decision to pursue (or not) any of these capabilities depends on context, such as functional and business priorities, the success rate for these approaches indicates CHROs should consider them as they move into a year with even higher expectations.

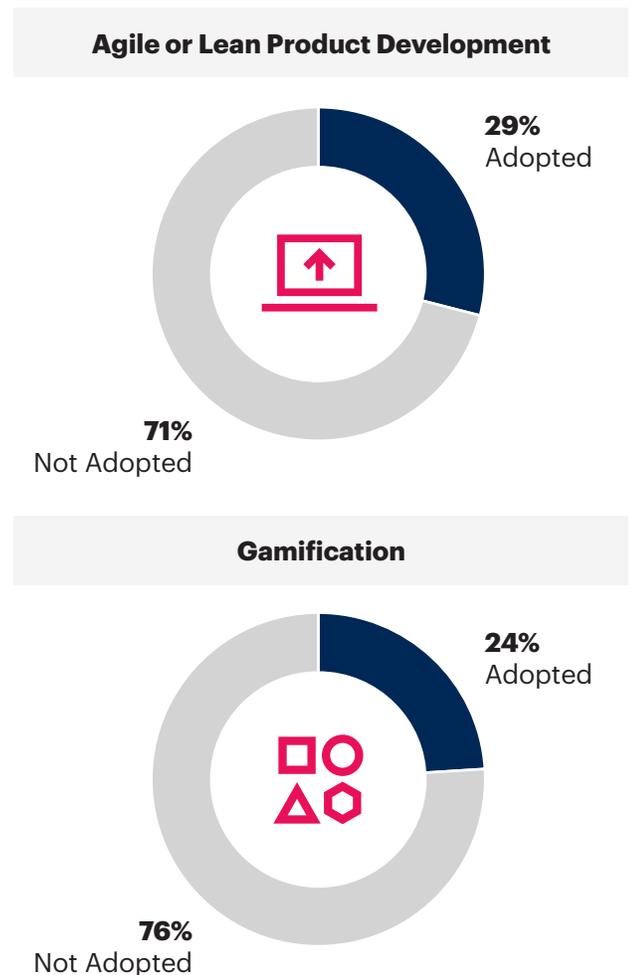
Following is guidance for CHROs on implementing agile product development and gamification.

Agile or Lean Product Development

Agile is a mindset that embraces change and prioritizes meeting customer demands. While this methodology has been used in product development for years, it is just starting to increase in popularity for HR as a way to quickly deliver solutions in response to ever-changing employee needs. However, HR leaders face several challenges when trying to implement agile in HR, which may explain why fewer HR functions than expected have implemented it.

One of the most common barriers is resistance from HR staff. The main cause of this resistance is that staff don’t feel adequately prepared or comfortable supporting agile, so they revert to their old ways of working.

Figure 3: Adoption Rate of the Top 2 HR Function Experiments
Percentage of HR Functions



n = 253
Source: Gartner 2019 Future of HR Survey



Case in Point: Agile People Practices

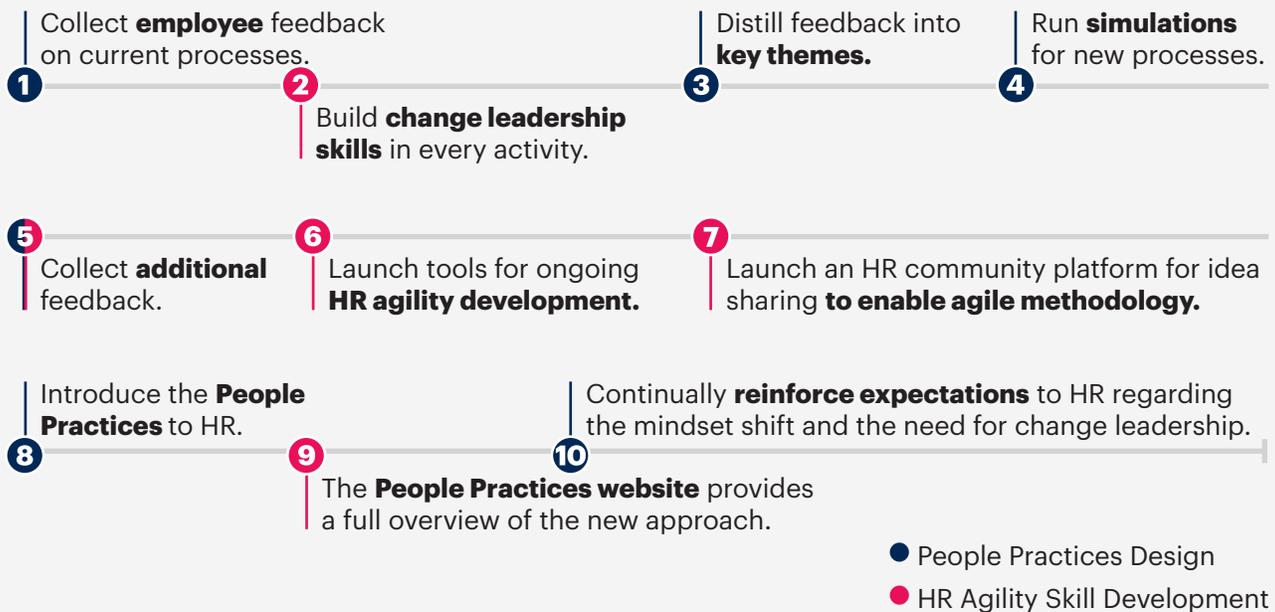
HR leadership at Roche, a pharmaceutical company, wanted the function to become more agile, a key component of which was to transform its traditional talent processes (“People Practices”) to make them agile. To ensure HR staff could continuously meet the new demands that would be required to support agile (e.g., comfort with ambiguity and willingness to experiment) and not fall back into their old ways of working, Roche realized staff would need to do more than just learn and develop the skills. Therefore, Roche planned to create a fundamental mindset shift in addition to changing its processes.

To do this, instead of designing its People Practices and then working to shift staff

mindsets, Roche developed HR’s agility skills at the same time the practices were being designed. For example, although the foundation of agile was introduced to employees early in the journey, Roche introduced just-in-time training later, while it was collecting feedback on simulations that tested new People Practices (see Figure 4).

This approach enabled agile skill development and process design to reinforce one another at the right times. Process design gives HR the opportunity to develop the new skills and start applying them. At the same time, skill development reinforces a new mindset and provides an overarching framework to help staff understand why the People Practices are designed as they are.

Figure 4: HR Agility Skill Development and Agile People Practices Design



Source: Adapted from Roche

Note: Roche teaches change leadership to create a foundation for understanding why HR would need to operate as an agile function.



Case in Point: Gamified Learning

Aviva, an insurance and financial services organization, wanted to increase employees' willingness to take risks as the company shifted toward a growth posture in the market. So it developed an online "choose your own adventure" game to help employees practice taking risks.

In the game, employees are given a scenario and must evaluate trade-offs and ultimately make a tough decision. The game also uses

corrective feedback by highlighting the positive and negative decisions employees made, which allows employees to make mistakes, teaches them the best answer from the organization's perspective and sensitizes employees to gaps between their current habits and desired risk taking.

Aviva gamified this process because it needed a way to expose employees to taking risks. This interactive and entertaining game allows employees to practice risk taking in a low-stakes, safe environment.

Gamification

In contrast to agile, gamification has been a hot topic for a while. However, as discussed earlier in this article, our recent research suggests it is far less common in practice than it is in the headlines. While gamification is a good idea on the surface, business leaders question whether it is essentially putting an often unnecessary "wrapper" on something solely to make it more fun or entertaining.

The key is to only gamify processes when gamification provides a unique value that otherwise couldn't be achieved. Leaders can determine which processes fall into this category by identifying challenges their functions or employees have been facing for a while and consider those for gamification, rather than deciding to make HR more entertaining through gamification and then choosing the process to gamify.

Conclusion

With all the pressure CHROs face in 2019, one way they want to position their functions to meet expectations is by rethinking ways in which the function operates — and the capabilities required to do so. While heads of HR aren't taking advantage of some of today's emerging capabilities, they are seeing returns when they do use them. The two most successful capabilities are agile product development and gamification. CHROs should really consider these two capabilities for their functions and focus on implementing them methodologically and not just in response to hype.



Critical Experiences for Future CHROs

By Rebecca Palacios



What experiences do I need to become a head of HR? A top-performing one? How should I prioritize these experiences? These are some of the questions you might be thinking about a lot if you aspire to become a head of HR. To help aspiring CHROs answer these challenging questions, we asked more than 250 CHROs about their careers and what moments most mattered to them.

We tested 15 experiences heads of HR identified as critical to becoming a world-class CHRO. Current CHROs identified whether they had these experiences and whether they were critical in preparing for their current role. We then organized these into four categories based on their answers (see Figure 1):

- Must-have experiences
- "High-potential" experiences
- High-Voltage experiences
- Emerging experiences

Must-Have Experiences

Perhaps unsurprisingly, the most common and most important experiences are largely culture-related. These must-have experiences are found in the top right quadrant of our matrix and rank high in both prevalence and criticality. Some of these experiences are about building a new culture, such as crafting a new mission, vision or set of values. Others, such as managing executives through a sensitive crisis or situation,

are about testing a culture and require HR leaders to guide executives through difficult decisions where there is likely pressure to act contrary to the company's culture.

The highest-ranking experience in terms of criticality, leading a cultural transformation, combines experiences in both building and testing a culture. Of the 81% of CHROs who had this experience, more than 80% identified it as critical. Leading a cultural transformation provides opportunities for exposure to a wide range of culture experiences that aspiring CHROs will need to fulfill their future roles as drivers of culture and purpose.

Action Item: Prioritize opportunities that give experience in building your organization's culture and navigating situations that test that culture. Heads of HR must know how to craft a new culture with the CEO and work with senior executives through internal and external events where the easiest decision doesn't always align with the right decision in terms of the culture the organization aspires to.

Figure 1: Moments That Matter in CHRO Development



Source: Gartner (January 2019)

"High-Potential" Experiences

The experiences found in the lower right quadrant are highly prevalent but are not rated critical quite as frequently as the must-have experiences. However, they have the potential to be critical experiences in the preparation and ongoing development of a head of HR, because they are frequently related to enterprise-level change. Examples include implementing a large-scale change to compensation or benefits, supporting a merger or acquisition and managing a CEO transition.

The challenge with these experiences is maximizing the opportunity they present. For example, current and rising CHROs may be so overwhelmed with activities that they focus on the details and hitting critical milestones and do not make the time for self-reflection and learning. Or HR executives may be marginalized from the organization's major decisions. Yet another

reason may be a perceived lack of expertise that deters an HR executive from fully taking advantage of the opportunity. Fortunately, these challenges can be overcome with careful and deliberate focus.

Action Item: Identify the root causes of potential barriers to capitalizing on these and related high-potential experiences so you can plan for these experiences and turn them into crucible or critical experiences.

High-Voltage Experiences

One of the least common experiences we tested ranked as one of the most critical. Leading a business unit with profit and loss (P&L) responsibility is the only experience that lies in the top left quadrant of our matrix. Less than half of the CHROs we surveyed have had this hard-to-get experience; however, more than 60% of those who had this experience identified it as critical for preparing them for their current role.

Being courageous and seeking out an experience leading a business unit with P&L responsibility allows future heads of HR to gain unique business exposure outside HR.

Similar to a high-voltage area like an electrical substation which is off limits to the general public but provides a lot of value to the public, P&L opportunities seem/are often "off limits" to HR professionals, but likewise can provide powerful experiences to them.

Understanding the operations and strategies of individual business units allows a future head of HR to establish credibility that can help cultivate a strong partnership with the CEO and board.

Being courageous and seeking out an experience leading a business unit with P&L responsibility allows future heads of HR to gain unique business exposure outside HR. In doing so, they develop business acumen in a way that is fundamentally different from supporting executives while remaining in an HR position. For example, expanding into new markets or product lines allows HR leaders to strengthen their understanding of their business unit, but it is very different from the pressures a business leader is exposed to and the business decisions required in a seat with P&L responsibility.

Action Item: Carefully consider potential moves outside HR that would strengthen your current skill set and help you develop new skills. Identify an executive who can advocate for or sponsor you and help broker the right opportunity. This person could be your head of HR or a line leader you have a good relationship with already based on your previous HR work. Not all business experiences are equally valuable, so do not make a move before carefully weighing the benefits and drawbacks of a specific role in the business with your manager, executive sponsor or mentor.

Emerging Experiences

The bottom left quadrant contains important, but relatively uncommon experiences among current CHROs and are not reported to be as critical as the other experiences we tested. These are broader business experiences, including working

on any type of international assignment, sitting on a board of directors (of a nonprofit or a public company), going public or private and engaging with the investor community.

Though they are not very common among current CHROs, we anticipate these experiences may become more critical as heads of HR increasingly shift from business partners to business leaders. They therefore carry value for aspiring CHROs.

Action Item: Many of the business experiences listed in this quadrant are hard to find if you aren't already in a CHRO role. So finding ways to get exposure to similar experiences — either through the HR function or outside of it — can be valuable.

Conclusion

While many important experiences are needed to become a CHRO, our data suggests some are more critical than others. Based on the experiences of CHROs today, aspiring CHROs should seriously consider experiences such as leading a business unit with P&L responsibility or a cultural transformation. They should also make the most of the "high-potential" experiences above, while keeping a pulse on emerging experiences.

However, the criticality of these experiences will likely change over time. New experiences will emerge as technology increases and more organizations undergo digital business transformations. For example, we may see a rise in important CHRO experiences related to big data and analytics. Similar to how you monitor changes in skill requirements for your workforce, do the same for your own career.

