Fourth Quarter 2016–First Quarter 2017

CHRO Quarterly

A Magazine for Chief Human Resources Officers and Their Teams

Moving at the Speed of the Business

In This Issue

Part of the **CHRO Insight Series**
CEB Corporate Leadership Council™

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CHRO Quarterly

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Open Source Change

How HR Can **Engage the Workforce** to Execute Any Change

7 in 10

organizations use a **top-down change strategy,** crafting their change strategy and cascading it down to the workforce.

But

2/3

of the time, this approach fails to drive real change.

Organizations must *shift* to an open-source approach that moves decision making and planning deeper into the organization.

	Set the Strategy and Define the Vision	Plan Implementation	Communicate and Sustain Change
Top Down	**Leaders alone** set change strategy.	Leaders create change plans **indicating what employees should do.**	Organizations **tell employees about the change** and its benefits.
Open Source	**Employees actively participate** in shaping change decisions.	Employees create **personal change implementation** plans.	Employees **talk openly about the change.**

An **open-source** approach can:

Increase

your **probability of success** during change by up to **22** percentage points.

Decrease

your **implementation time** by as much as **1/3.**

Register for an upcoming CEB Corporate Leadership Council™ event to learn more about Open Source change.

“Moving fast is not the same as going somewhere.”

Robert Anthony

Moving at the Speed of the Business

By **Brian Kropp, Matt Brooks, and Matt Dudek**

During our recent Open Source change meetings, many leaders said they were dealing with several changes in the next year, often at the same time. This isn't the result of some huge wave of change sweeping the business world—it's the new normal. More and more, CHROs find themselves navigating through one big change after another.

Dealing with frequent changes reflects a larger challenge that HR faces: moving at the speed of the business. Speed is omnipresent in the business world these days. As consumers have come to expect goods and services right away (and help to be just a tweet away), organizations have scrambled to keep up. And as everything else starts to move faster, HR is expected to speed up by adjusting processes to match rapidly evolving priorities.

HR faces two main challenges to move at the speed of the business. The first is getting the right information. To adapt to changing priorities, organizations have to know what those priorities are. The second challenge is ensuring processes are able to move quickly. This doesn't mean redesigning processes every time something changes; it means having processes that are fundamentally designed to adapt to change.

To adapt to changing priorities, organizations have to know what those priorities are.

In this issue, we cover several topics related to both these challenges. The featured article on p. 20 summarizes our recent research on high-potential talent, an area that has been hit particularly hard by the rapid pace of changing leadership needs. To help secure information more rapidly, we discuss some use cases for pulse surveys on p. 16. On p. 36, Bernardo Quinn from Telefónica discusses lessons learned from how his organization has confronted major change initiatives.

Finally, we lead into 2017 by discussing findings from our recent poll of over 100 CHROs from around the world (p. 8). They have shared their current priorities as well as some of the challenges they believe their organization might face in the coming year.

Moving at the speed of the business isn't just about going faster; it's about dealing with the complexity of a fast-moving environment.

In the News

CEB's take on what others are writing about talent

Talent Management Can't Be Isolated—but Is There a Role for HR?

By **Amanda Joseph-Little, Matt Dudek, and Jessica Knight**

At the *Harvard Business Review,* Ron Ashkenas makes the case against centralizing dedicated talent management teams in the HR function, pointing to two factors that he sees as reasons why these teams often don't get the desired results:

"The first is that the advent of talent management as a stand-alone specialty has led to overly complicated talent processes that are difficult to understand, at best, and confusing to managers, at worst....The second problem is that the rise of a central function makes it too easy for managers to forgo their personal accountability for acquiring and developing the right talent for their business."[1]

A third problem is the potential for discord in the HR function.

A third problem is the potential for discord in the HR function. In HR, each sub-function becomes isolated, and handoffs among the sub-functions become inefficient and hard to manage. So centralization isn't just a problem for managers but for HR as well.

Mylestone found a solution to this problem by having its HR department conduct HR Responsibility Negotiation forums. These forums improve communication and coordination throughout the function by allowing everyone to negotiate responsibilities.

Furthermore, few talent challenges or initiatives are just recruiting challenges or just compensation challenges; the vast majority requires a more integrated response. In addition to improving insight and coordination the way Mylestone did, we've seen organizations like Qantas choose to make a structural change, collapsing talent management subgroups into a more flexible project pool, allowing more custom support for line challenges and more holistic development for talent professionals.

The other missing link to involving HR in talent management is how a good HR function can enable stronger manager–employee relationships. Since Ashkenas does HR consulting, presumably he's not trashing the concept of talent management altogether. But the way he writes the article, he almost seems to be.

What he's saying is that managers cannot abdicate accountability for managing talent, but they should not try to "go it alone." On the other hand, it's hard for managers to work in an effective partnership or coalition with HR if talent management support isn't built with the customer or end user (i.e., the manager) in mind.

So the lesson to be learned is not necessarily to take talent management away from HR but to improve HR's ability to collaborate internally and with managers throughout the organization.

[1] Ron Ashkenas, "You Can't Delegate Talent Management to the HR Department," *Harvard Business Review,* 23 September 2016, https://hbr.org/2016/09/you-cant-delegate-talent-management-to-the-hr-department.

Using Predictive Analytics to Stay Ahead of Turnover

By **Blakeley Hartfelder**

When we talk to HR leaders about predictive analytics, the first thing they usually want to do with this new advanced tool is improve retention. That's definitely easier said than done, especially if you want the project to create results instead of just being an interesting research topic. Aliah Wright at SHRM highlights how Anderson Center for Autism, a school that had a strong need to retain its highly skilled employees, used predictive analytics to help meet that goal:

"Using Ultimate Software's UltiPro, [Gregg Paulk, director of information technologies for the school], said the company 'grew...and kept head count flat, reduced paper [processes] by 95 percent, and increased the time spent on employee development by 30 percent. The software also allows staff to manage time and attendance from anywhere [and yields] improved reporting and compliance.'"[2]

Anderson did a couple of things really well, which makes it a great example of how to apply analytics effectively.

First, the school didn't choose to focus on retention just because it was interesting or the data was available; it was instead trying to solve a problem affecting its bottom line. Second, the school is focused; it applies predictive analytics tools to essential employees, not everyone. This approach hopefully means it can truly understand what is causing the most important employees to leave the organization and stop them. Third, Anderson has gone beyond analysis and numbers to develop a clear plan of action when it discovers a key employee is thinking of leaving.

To be able to act on insights and data from predictive retention analytics, the most successful organizations think about how they will use those results even before the analysis starts coming in. Whom will they share the information with, what steps will HR and managers take to encourage employees to stay, and are those steps the same for all employees?

These best practices apply whether you are managing retention with advanced analytics or with low-tech tools such as stay interviews and career conversations. Read more about how to measure and mitigate attrition risk.

[2] Aliah D. Wright, "How One Company's Foray into Predictive Analytics Aids Retention," Society for Human Resource Management, 21 October 2016, https://www.shrm.org/resourcesandtools/hr-topics/technology/pages/how-one-companys-foray-into-predictive-analytics-aids-retention.aspx.

One Fortune 500 CEO recently told heads of HR at a CEB event that "The challenge you have as the chief people officer is to go into the CEO's office to make sure I make the right decisions." To see how the best heads of HR are ensuring their CEOs make the right decisions, we surveyed more than 100 CHROs from around the world through our Future of HR initiative. What follows is our analysis of CHROs' five key priorities for 2017 and the implications for all forward-thinking heads of HR.

Setting Priorities for 2017

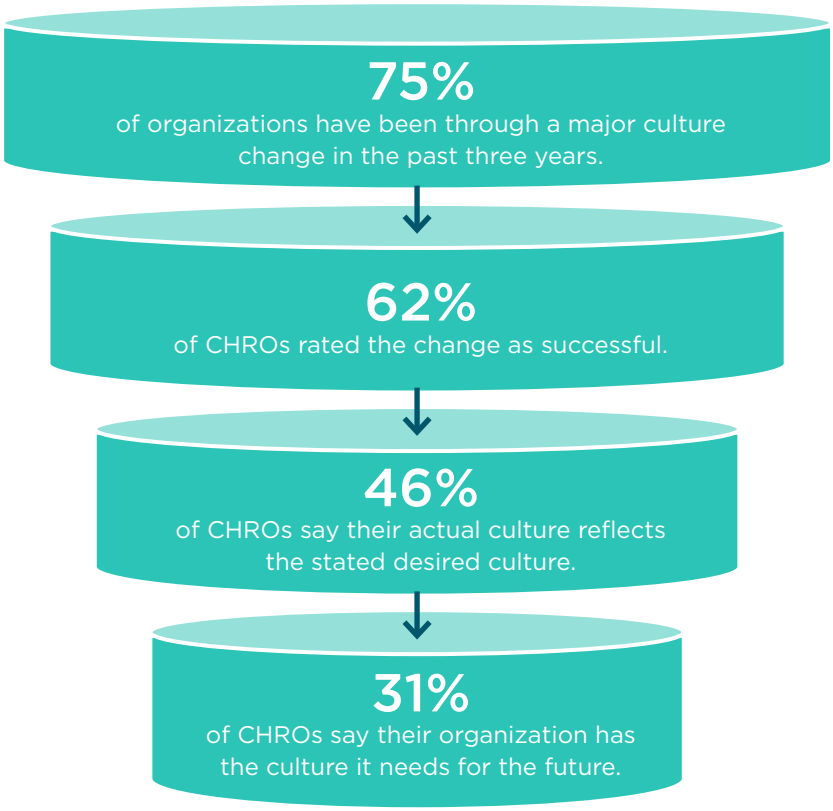
How Leading HR Executives Are Approaching Their Agenda

By **Matt Dudek**

Priority 1: Realign Culture to Strategy

The number of changes in organizations is accelerating. Since culture and business transformation often go hand-in-hand, the number of cultural transformations is also increasing. With 76% of organizations planning a culture change this year, heads of HR are prioritizing culture as the second topic in their CEO conversations (behind leadership), and these discussions will be tough. Just 3 in 10 organizations have the culture they need for their future strategy.

The Culture Transformation Funnel of Failure

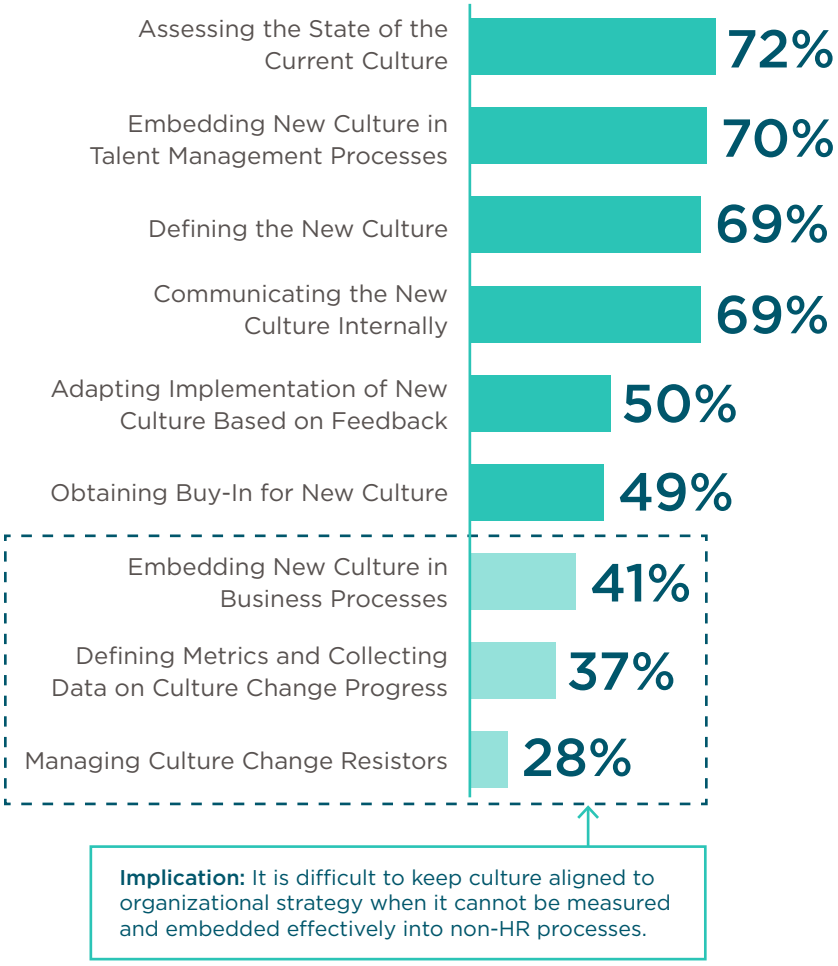


n = 106.
Source: CEB 2017 Future of HR Agenda Poll.

The breakdown between strategy and culture seems to occur not at the start of the process but when it is time to embed the new culture throughout the organization: getting the necessary buy-in throughout the organization, incorporating the new culture into business processes, and managing resistors. In fact, heads of HR tell us one of their most important roles is to reduce the time lag from when leaders articulate the desired culture to when employees change their behaviors. At the same time, senior HR executives know they cannot do this alone. Few (30%) say that HR is primarily responsible for executing culture change.

CHROs Are Confident in Team's Ability to Determine Culture but Not Disseminate It

Percentage of CHROs Confident in HR's Ability to Execute Culture Change, by Phase



n = 106.
Source: CEB 2017 Future of HR Agenda Poll.

How can heads of HR create shared accountability for implementing the new culture? Even if CEOs and CHROs believe all leaders are responsible for executing culture change, many leaders still perceive anything around culture as an "HR initiative" and are slow to engage. This perception means culture change strategies relying on leaders to model and communicate behaviors are fragile and liable to fail without constant reinforcement.

To spur better and faster culture change, CHROs and CEOs need to rethink the leader's role. The leaders who most effectively spread the new culture through their organizations may do so not by modeling new behaviors but by finding and changing key business processes to reflect the values and behaviors the organization is looking for. In other cases, culture change may require involving leaders sooner to cocreate the culture to create more ownership and accountability for a successful shift in behaviors.

[1] Rebecca Newton, "HR Can't Change Company Culture By Itself," *Harvard Business Review*, 2 November 2016, https://hbr.org/2016/11/hr-cant-change-company-culture-by-itself.

One global health care organization is successfully changing its management culture by cocreating new behavioral expectations with managers (instead of dictating expectations to them). The HR team led a 48-hour, live online chat, or "digital jam," with the organization's 5,000 managers. HR asked provocative questions and 1,500 managers shared constructive, candid feedback. This project was so successful that managers asked to do another digital jam on other topics.

Priority 2: Transform HR from the Outside In

Heads of HR have developed a set of priorities to address key social and technological trends ranging from big data to consumer expectations for on-demand access to digital disruption. Three strategies characterize the path heads of HR are taking to transform the function into a source of competitive advantage:

1. **Maximize Organizational Speed and Scale**—Thirty-two percent of heads of HR are figuring out how to use new technology and strategies to enable scale. These include moving HR systems and services to the cloud, creating internal HR consulting teams of HR Business Partners and staff from centers of excellence, and tapping into the "on-demand" workforce ("gig economy").
2. **Create a Digital Employee Experience**—Thirty-two percent of CHROs focus their functional innovations on setting their organizations apart by creating a consumer-like employee experience. They are applying product management discipline to HR offerings (e.g., Agile methods), building HR apps to provide a consumer-like experience, and gamifying talent management.
3. **Innovate on Talent Management Processes and Policies**—Thirty-six percent of HR executives are removing policy and procedural barriers that reduce functional and organizational productivity. They are exploring ideas such as eliminating traditional performance management approaches and increasing flexible working arrangements and expanding maternity and paternity leave benefits.

Which path an HR team pursues critically depends on context. Functional innovation objectives must align with business priorities. The best HR leadership teams not only regularly assess functional maturity but also proactively and regularly seek an outside perspective. They ask the business to pick the most important HR capabilities it needs and to assess current functional effectiveness in categories ranging from HR policies to HR staff knowledge. This feedback brings clarity and urgency to HR strategic planning. Objective data makes it possible for HR leadership teams to collectively decide on difficult trade-offs where HR budget and staff are deployed. So any of these strategies can be the primary focus of your HR transformation provided it closes the biggest gaps in current HR capabilities relative to the business's future needs.

Priority 3: Identify Nonobvious C-Suite Partnership Opportunities

23%

Average Time Spent on Cross-Functional Issues

Last year we highlighted how heads of HR are taking a leading role in many more enterprise-wide initiatives. This trend is affecting CHROs even more this year. CHROs spend 23% of their time—more than one day a week—on cross-functional initiatives unrelated to talent. In fact, the typical head of HR will lead or be significantly involved in at least five cross-functional or enterprise-wide initiatives over the next 12 months. Frequently, these initiatives support incremental continuous improvement efforts, but more often they advance broader business transformation objectives. New research shows today's transformations are more likely to involve a major repositioning of the business in its broader ecosystem, requiring organizations to make key shifts in products, markets, and commercial partnerships.[2]

Top Three Peers CHROs Must Collaborate with Over the Next 12 Months

n = 106.
Source: CEB 2017 Future of HR Agenda Poll.

With enterprise initiatives spanning multiple functions, heads of HR have to partner earlier and more strategically with C-suite peers to identify overlooked talent-related challenges or opportunities in business plans. Here are three C-suite peers CHROs need to work differently with in 2017 and the key issue to focus on with each to increase the probability of success for cross-functional initiatives.

CFO: Companies that consistently outpace their competition in revenue growth and margin expansion allocate capital to bigger growth bets, pursue best-fit M&A targets, and provide clear messaging on strategy to investors. Heads of HR need to partner more closely with CFOs on removing talent-related anchors on growth (e.g., misaligned incentives or pay structures that cause business managers to redirect resources and attention away from large growth projects).

Chief Information Officer: With many business transformations focused on establishing a presence or leadership in the digital space, heads of HR and IT need to determine how to create a robust digital workforce pipeline and the implications for corporate culture. In fact, nearly one-third of CHROs believe failure to attract and retain digital talent will be their organization's greatest risk. The key is understanding that the most engaging career paths provide a series of compelling experiences that retain digital talent, not necessarily rapid pay or title progression.

Chief Strategy Officer: Top CHROs are also partnering with heads of Strategy to break the cycle of failed change initiatives. Head strategists at a CEB event underscored the powerful potential of working more closely with their HR colleagues to understand the link between corporate strategy and talent. As one strategist said, "I used to think I had to shoulder the burden of change initiatives alone. Now I have a partner I can work with."

Priority 4: Expand the Frontier of Your Board Relationships

Boards at top-performing companies are twice as likely as bottom-performing companies to understand talent issues. However, two-thirds of heads of HR take responsibility for needing to better present talent insights to the board in the coming year.

Heads of HR have two opportunities to better communicate talent issues and expand the frontier of their board relationships. One is to better align their work to the board's priorities. Now, the talent issues on which CHROs focus align somewhat with the talent issues on which the board wants better insights, but many outliers remain. For example, CHROs will prioritize culture while boards expect better perspective on executive compensation.

Another opportunity for heads of HR to influence boards surrounds the management of the board itself. A growing

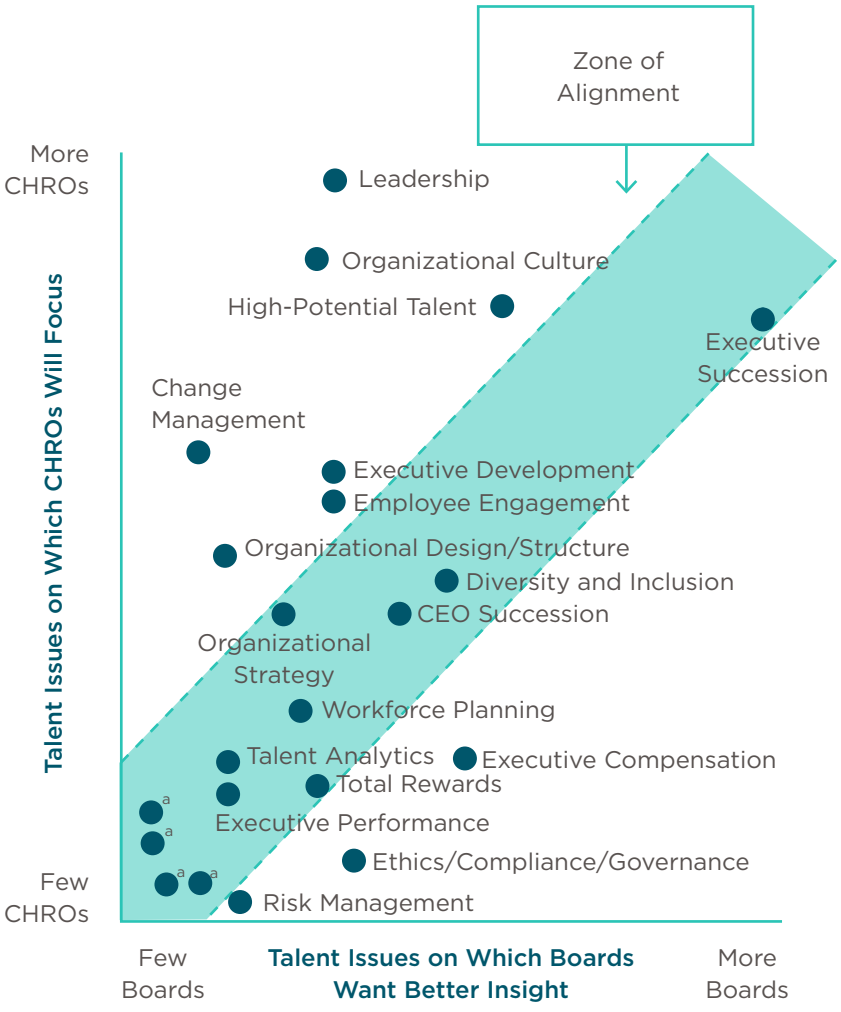
[2] IBM, *Redefining Competition: Insights from the Global C-Suite Study—The CEO* Perspective, 2016, http://www-935.ibm.com/services/c-suite/study/studies/ceo-study/.

number of HR leaders report growing involvement in recruiting, onboarding, and compensating board members compared to three years ago. Heads of HR tell us this opportunity is a logical outgrowth of several factors, including more board turnover, more first-time board members, and movements for greater board diversity.

To capitalize on these opportunities, CHROs should improve the line of sight between every talent-related data point the board sees and business outcomes. For example, instead of presenting metrics on the overall state of talent, focus on critical business outcomes and explicitly show the link between talent outcomes and business outcomes.

Talking about business outcomes first and then backing into talent and HR strategies is an approach several leading heads of HR recommend. During board member recruiting and onboarding, consider proactively briefing new directors about key talent risks or opportunities. Preparing a simple heat map or dashboard can lead to a robust discussion.

Talent Issues That Boards Want Better Information on Compared to Those That CHROs Are Prioritizing



n = 106.
Source: CEB 2017 Future of HR Agenda Poll.
[a] Bottom left corner includes CEO performance, EVP, executive recruiting, and health care.

CHROs Are More Accountable for Rewarding and Finding New Board Members

Percentage of CHROs More Accountable for Activity Versus Three Years Ago

Compensating Board Members	30%
Onboarding New Board Members	28%
Recruiting New Board Members	23%
Managing Working Relationships Between Board Members	21%
Recommending Board Member Committee Assignments	16%
Developing Board Members	16%
Evaluating Board Member Performance	11%

n = 106.
Source: CEB 2017 Future of HR Agenda Poll.

Priority 5: Confront Doubts About Succession Plans

If performance management was the focus of the most intense scrutiny in 2015 and 2016, succession practices look ready to take its place. Executive succession is the number-one talent issue on which heads of HR are feeling pressure from the board to provide more insight in 2017. Boards seem more dissatisfied with current approaches, asking about the succession process, current bench strength, and overall pipeline sustainability. In particular, they're curious about the organization's sourcing strategy.

HR executives also have pointed questions about the effectiveness of traditional succession processes and seem ready to jettison and reimagine mainstays of succession planning, such as nine-box matrices, to plot leader performance against potential. At the same time, only 11% of CHROs say they're exploring better ways to introduce internal senior leadership candidates to the board. This finding is especially perplexing in light of the fact that the second most important talent issue that boards want more insight on is high-potential talent.

Top Questions CHROs Are Asking About Succession

34% of CHROs Need to Know
"How can we improve on the nine-box matrix for evaluating successor readiness?"

32% of CHROs Need to Know
"What is the best approach for conducting talent reviews?"

18% of CHROs Need to Know
"How do we improve the CEO succession dialogue with the board?"

n = 106.
Source: CEB 2017 Future of HR Agenda Poll.

After the challenge many organizations have faced with declining engagement in the wake of eliminating performance ratings, CHROs need to move deliberately and cautiously toward new succession practices.

First, HR executives must change how they frame succession strategy and subsequent discussions. Many organizations rely on the pipeline analogy to guide how they identify and prepare successors. Pipelines work in stable environments where leadership needs remain the same, but they break down in a constantly changing work environment, leading to weak leadership benches.

The best organizations manage their successors like a portfolio of financial assets (i.e., goal setting, broad-based sourcing, diversification, and portfolio rebalancing). This thinking brings a level of rigor, insight, and understanding of the value of the process to all parties involved, resulting in a stronger leadership bench.

Conclusion: Turning Priorities into Results

How will you incorporate these priorities into your 2017 plans? Each sheds light on new opportunities for CHROs to disproportionately affect their organizations. They reveal important conversations to have with the CEO, C-suite peers, and your leadership team about talent's role in organizational outcomes. As one CHRO in the airline industry put it: "You need to look at whether you want to follow the rules, stay in the race, and win the race. Or do you change the rules and do something differently?" These trends give CHROs the evidence they need to change the rules of how their organizations manage talent, and in doing so, demonstrate HR's true potential.

To learn more about the Future of HR initiative, read our benchmarking report *The Future of HR: What's Next for CHROs in 2017?*

Key Takeaways **for CHROs from 2016 ReimagineHR**

By **Nina Moreno**

CHROs from around the globe came together at our ReimagineHR Miami and London meetings to learn how to guide their organizations through an environment of constant change. In an invite-only breakout session, a panel of experts and CHROs explored the role of the CHRO in the boardroom and the latest trends in executive compensation. Following are highlights from this discussion.

The CHRO's Role in the Boardroom

1. Boardroom Diversity Demands CHRO Creativity

Attendees emphatically identified boardroom diversity as a top priority but struggled to lay out a roadmap for achieving it. Relying on professional networks, which tend to be homogeneous, and providing myopic criteria to head-hunters result in traditional candidate lists. Panelists noted that the lack of women and minorities on boards is a systemic issue that requires creative approaches that go beyond quotas. The CHRO has a hugely valuable role to play—from removing barriers (e.g., breaking free from the "previous board experience" criteria) to proposing diverse candidates as more niche issues come to the forefront (e.g., nominating a 35-year-old cybersecurity expert).

2. CEO Succession Requires CHRO Leadership

According to one panelist, the two topics boards want to spend the most time discussing are strategy and CEO succession. Despite its importance, only one-quarter of board members feel they are adequately prepared to look into the issue of CEO succession. The amount of time a board dedicates to meaningful talent management discussions correlates with the strength of the head of HR. The best heads of HR demonstrate an ability to be both a leader and trusted adviser on CEO succession. Panelists recommended CHROs also focus on building a relationship with the corporate secretary to ensure CEO succession is on the agenda.

3. Heads of HR Make Valuable Board Members

Panelists noted the small but growing trend toward including heads of HR on boards to take advantage of their expertise in solving critical people challenges and to help manage a CEO. The same skill set that makes a great CHRO also makes a great boardroom contributor. For example, the judgment to discern when to have a private discussion and the ability to foster partnerships to work through a problem are necessary for both CHROs and board members. CHROs in the room agreed that those interested in board membership must demonstrate that they are strategic thinkers and assets, although they admitted that this is often difficult to do.

4. Board Confidence in HR Depends on the CHRO's Level of Granularity

An attendee shared how difficult it is to maximize the few moments of interaction CHROs have with the board. The board's confidence in the HR function is based largely on how CHROs articulate themselves. Often what prevents the board from seeing CHROs as strategic thinkers is that they speak at too granular a level. Panelists recommended that CHROs assume board members will have read the material beforehand and therefore steer toward more strategic discussions rather than recapitulate the details. Another best practice shared is to periodically solicit feedback; board members may have certain expectations for the content or the layout of the material presented to them.

5. CHROs Must Become More Aware of What Keeps Board Members up at Night

Panelists shared that most CHROs are typically unaware of what's keeping their board members up at night, which is problematic because board member challenges are CHRO challenges. Attendees agreed that they don't necessarily understand what proxy advisory firms are saying about corporate governance at their organization or how large investors' policies will affect their organization. CHROs admitted to also being underprepared to join most conversations unless they understand the causes of business growth and organizational strategy and emphasized the need to be better informed on these issues in order to more effectively support the board.

Trends in Executive Compensation

1. Provide Incentives for the Culture You Want

Incentive strategies that go wrong can create a culture of corruption. Attendees discussed recent scandals where organizations rewarded behavior that prioritized financial success to the detriment of their values. Panelists urged CHROs to have a finger on the pulse of their organization's culture and understand what causes certain behavior. A key question to ask is "Do these compensation plans promote the kinds of behaviors that are going to add value to the organization?" Panelists also agreed that it's incumbent on the head of HR to bring up culture with the board, as members tend to hesitate to broach the topic in favor of discussions that involve hard numbers and profit margins.

2. Shape the Narrative on Pay Ratios

Organizations are facing pressure to report pay ratios, and CHROs expressed uncertainty about how their organization will share this information. Boards require time to consider the narrative that needs to be presented. For many organizations, particularly ones that don't have a good communication plan for articulating their general approach to compensation, this narrative could present a problem. Outliers in an industry will face the most pressure (in terms of questions asked or demand for change) from both investors and employees. Panelists highlighted the increasingly large role CHROs have to play in explaining to these audiences why pay is the way it is and articulating how ratios change over time and why.

3. Ask "What Are We Paying For?"

Attendees shared their growing frustrations with the complexity of long-term incentive plans and discussed ways they are experimenting with compensation strategies. The key question was "What are we paying for?" One panelist mentioned that behavioral economics studies have shown that executives prefer $1 today to $3 three years from now. It seems the longer executives have to wait for the reward, the less they value it. Organizations' desire for executives to think about long-term success is in tension with a need for a more short-term focus.

4. Alternative Performance-Based Metrics Are More Common

Some attendees shared that they are now incorporating reputation as a performance metric, given how much power consumers have to publicly voice their displeasure about an organization or product. Other CHROs mentioned including diversity-related metrics, as organizations are starting to disclose these numbers and will face public scrutiny. Panelists agreed that organizations debate what metrics they will introduce next based on upcoming changes in the regulatory environment and emerging trends (e.g., metrics related to climate change and cybersecurity).

5. Shareholder Insight and Engagement Are Key

Panelists recommended heads of HR be aware of shareholder conversations, although they don't necessarily have to be privy to all these conversations. The board sets compensation, and panelists have noticed a growing trend of shareholder engagement on the issue. By being involved in design, heads of HR should know what shareholders are thinking and help boards navigate these conversations. Ultimately, if CHROs can create a program that shareholders are satisfied with, they are going to serve both their organization and owners well.

Checking the Pulse on Employee Engagement

Five Ways to Incorporate Pulse Surveys into a Comprehensive Survey Strategy

By **Oana Lupu and Peter Vail**

How is our ongoing IT system conversion affecting employee engagement? Are we on track to meet our engagement objectives this year? Did the recent engagement initiative have the desired effect? Although 94% of organizations measure employee engagement, most would struggle to accurately answer these questions.

n = 177.
Source: CEB 2015 Head of Engagement Survey.

Employee engagement levels are dynamic—they change over time in response to a variety of factors, including enterprise changes such as market expansions, mergers and acquisitions, and culture changes. For example, after a major restructuring initiative, over one-quarter of employees may experience a large shift in their engagement level. This shift is even more important when considering how frequently major changes occur in the new work environment: on average, organizations will undergo five enterprise changes in three years.

Most organizations, though, measure engagement only annually. Without a more frequent measure of employee engagement, determining the true impact of these changes on your workforce and making timely, informed course corrections can be difficult.

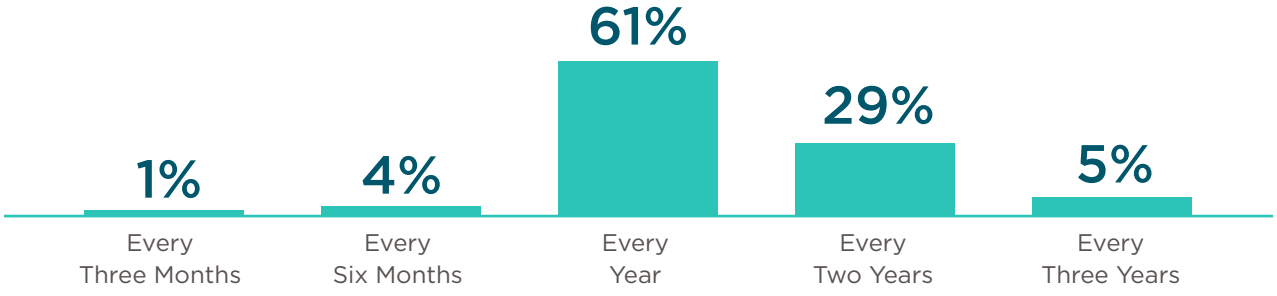
Methods of Engagement Measurement
Percentage of Organizations

9%
Non-Survey Engagement Measures

91%
Engagement Surveys

n = 173.
Source: CEB 2015 Head of Engagement Survey.

Frequency of Traditional, Large-Scale Engagement Surveys[a]
Percentage of Organizations

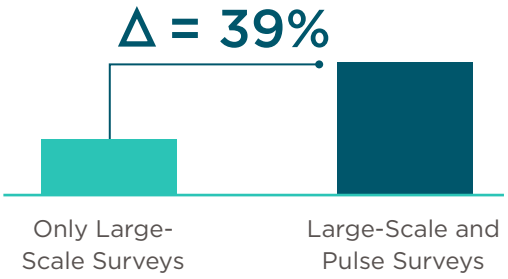


n = 149.
Source: CEB 2015 Head of Engagement Survey.
[a] These traditional surveys are defined as formal, long-form surveys deployed throughout an organization to measure employee engagement.

Does this challenge mean that traditional,[1] large-scale engagement surveys are obsolete? The short answer is a resounding no. Strategic, enterprise-wide surveys are the centerpiece of an effective engagement strategy. More than 90% of organizations deploy traditional surveys, and the vast majority intends to continue using them. It's easy to see why: the large sample size facilitates deeper analysis and increased confidence in the results, data cuts by different levels of the organization allow managers to take meaningful action specific to their business units, and the annual schedule enables disciplined metrics tracking and alignment with other key business processes.

The best organizations develop a comprehensive survey strategy that uses pulse surveys to complement annual employee engagement surveys. Whereas the traditional annual survey provides an in-depth, point-in-time description of the organization, pulse surveys enable organizations to generate additional insights over time, identify and respond more quickly to problems, and evaluate the effectiveness of improvement actions more easily. Organizations that complement large-scale surveys with pulse surveys are 39% more likely to act based on engagement data compared to those that rely only on large-scale surveys. However, only 26% of the organizations that use large-scale engagement surveys also use pulse surveys.

Likelihood of Acting Based on Engagement Data



n = 149.
Source: CEB 2015 Head of Engagement Survey.

Percentage of Organizations Complementing Large-Scale Surveys with Pulse Surveys

Only
26%
of organizations also use pulse surveys.

n = 149.
Source: CEB 2015 Head of Engagement Survey.

[1] Traditional surveys are formal, long-form surveys deployed to the entire workforce to measure employee engagement. Most often, they are deployed annually.

Five Ways to Incorporate Pulse Surveys into a Comprehensive Survey Strategy

1. Track

progress toward key metrics between enterprise surveys.

Organizations can deploy pulse surveys to track key metrics between large-scale enterprise surveys. Staff typically send these short surveys to a random sample of employees—usually quarterly or monthly—and often include the same questions to show progress over time. The insights generated from these pulse surveys allow organizations to identify and proactively respond to potential issues more quickly, before they become a significant performance barrier.

2. Measure

improvement resulting from specific initiatives.

Pulse surveys enable leaders to measure the effect of the engagement initiatives they design and implement. Staff usually deploy short pulse surveys at specific milestones of an engagement action plan to quickly indicate whether the organization is progressing toward objectives. These surveys are efficient and cost-effective, and they communicate to employees that their input from the large-scale survey was heard.

The main difference between this type of survey and the interim surveys described in point 1 is that this pulse survey's topics are likely to vary from year to year depending on the action plan's focus. Some organizations may choose to combine this type of survey with the interim survey.

3. Diagnose

the reasons initiatives succeeded or failed.

Organizations can use pulse surveys to diagnose the reasons why engagement initiatives are (or are not) having the intended impact. Staff typically conduct these surveys at multiple points along the implementation timeline to generate insights that can inform course corrections. The results enable leaders to improve outcomes by diagnosing potential implementation flaws.

4. Gain

employee feedback on recent events or hot topics.

One-off pulse surveys, or even one-question polls, are powerful tools for measuring employee feelings on emerging or hot topics—such as changes in management, technology, or culture—in real time. Staff usually deploy these surveys to a small sample of employees during a period of transition to quickly assess how well the team is responding to change. If no red flags are reported, the organization will know that its efforts are proceeding smoothly.

5. Gauge

current employee sentiment through continuous listening.

A "suggestion box" pulse survey approach provides employees with an ongoing opportunity to share feedback on various topics. Active, continuous listening with pulse surveys enables organizations to obtain consistent feedback and identify areas of concern. These surveys typically contain open-ended questions and are facilitated by automated text analysis. A notable difference between this type of survey and the ones above is that it empowers employees to provide feedback whenever an event triggers their desire to do so.

Pitfalls to Avoid

- **Limited Depth of Reporting for Small Sample Sizes**

  Limiting participation to a random sample of employees does not lend itself to the level of detail and reliability in reporting that a full enterprise survey can provide (e.g., segmenting particular roles). Clearly communicate with stakeholders in advance about the level of reporting that will be possible given the approach used.

- **A Focus on Engagement Score More Than Improvement**

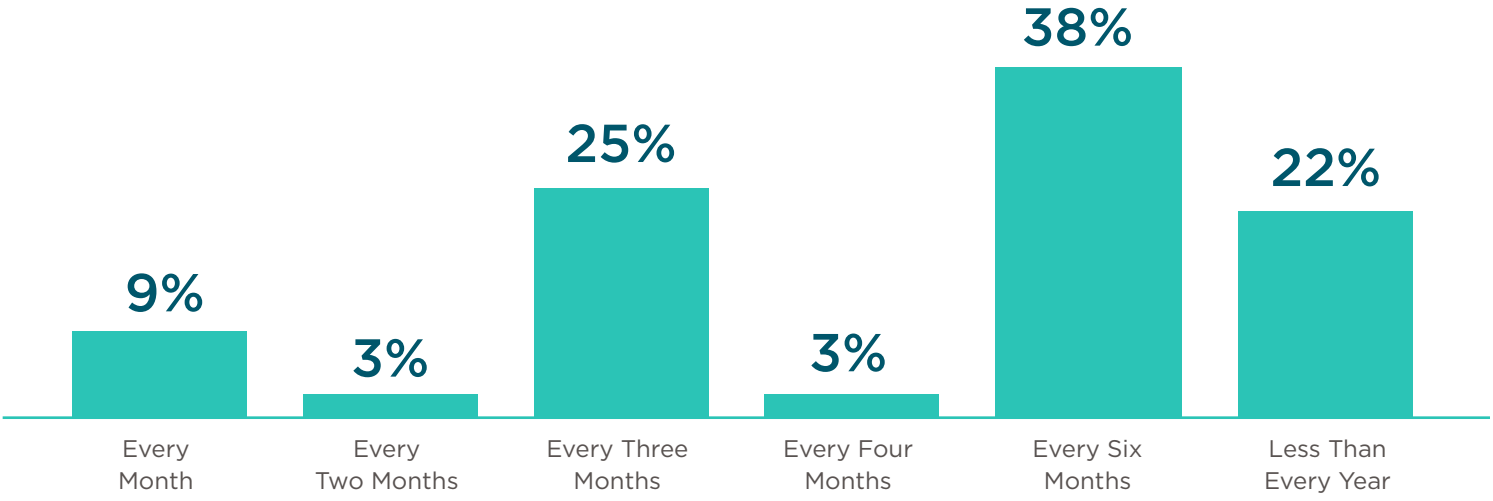
  The goal of the survey can devolve into an inappropriate focus on the score itself. Emphasize that the goal of the survey is not to beat the historical results but to collect information that will help define opportunities for continuous improvement.

- **Survey Fatigue**

  Without appropriate controls, a pulse-only or pulse-heavy survey strategy can become an endless series of surveys and an overwhelming amount of data. Space surveys out over the year, and use a sampling strategy that limits the number of times any one employee is asked to participate.

Frequency of Pulse Surveys

Percentage of Organizations



n = 32.
Source: CEB 2015 Head of Engagement Survey.

Pulse surveys are a powerful tool for monitoring changes in employee attitudes over time and identifying factors that influence the success of engagement initiatives during organizational change. Although insufficient on their own, when coupled with annual enterprise-wide surveys as part of a comprehensive data collection strategy, pulse surveys can produce more-timely data to better inform decisions and more effectively shape engagement strategy.

The End of Agility?

Designing a HIPO Strategy That Moves at the Speed of the Business

By **Matt Brooks and Oana Lupu**

High-potential (HIPO) talent strategies are facing an existential crisis. Although HIPO strategies are common at many organizations, only 24% of HR leaders are satisfied with the results, leading many to question the value of their HIPO strategies.

These questions are especially important when considering the investment being made in HIPO programs. The average organization spends 27% of its L&D budget on its HIPO program, and two-thirds of companies divert budget away from other talent investments to fund it.

> "We've invested heavily in finding and developing highly agile HIPOs to hedge ourselves for an uncertain future, but when leadership positions open up, hiring managers often prefer external candidates with specialized capabilities. It makes it really challenging to justify our investment in the HIPO program."
>
> CHRO
> Consumer Goods Organization

Confronting Changing Leadership Needs

A major challenge for HIPO strategies is that leadership roles are evolving rapidly. Two-thirds of HR leaders expect over 40% of senior leadership roles to be significantly different within five years. On top of that, one-third of those leaders can't predict what those changes will look like.

This uncertainty puts tremendous pressure on HR to design an effective HIPO strategy. So how can HR successfully find and develop leaders to fill future roles when it doesn't know what those roles look like?

Betting on Agile People

To account for uncertain leadership needs, many organizations are focusing on highly agile individuals who can quickly and easily adapt to changing needs and new circumstances. In theory, these individuals will be flexible enough to handle a variety of future leadership roles. To find these people, over two-thirds of organizations now include agility as a selection criterion for their HIPO program and/or provide HIPOs with a broad range of experiences to cultivate agility.

Unfortunately, bets on agility have not paid off. Over the past several years, the proportion of organizations with a strong leadership bench[1] has declined. Organizations focusing on agile people have particularly struggled: they are 17% less likely than organizations with other strategies to have HIPOs who are ready to assume leadership roles and 71% less likely to be able to fill a new skill gap with an internal candidate.

This is not to say that agility itself is bad. In fact, highly agile leaders are almost twice as likely to be among the top quartile of performers. However, building a HIPO strategy on highly agile people is not a solution to changing leadership needs. We have identified three major challenges to a HIPO strategy focused on agile people:

- **Fewer viable candidates**—There simply aren't enough highly agile people for this strategy to work. When accounting for other capabilities, adding agility can drop the number of viable candidates to less than 5% of the overall pool. Furthermore, organizations can't supplement the pool through development. Common development experiences offered to HIPOs do not increase agility, no matter how many of them are offered.
- **High risk of turnover**—The popularity of individual agility has reached recruiters, and they are actively seeking candidates who fit that profile. Not only are recruiters more likely to look for these individuals, but they are also more likely to entice them with a better offer.
- **Unintended consequences**—Adopting a strategy based on highly agile people may also have unintended consequences. First, it can spread development too thin and hinder role fit. Second, it reinforces mind-sets that prevent collaboration. Only half of highly agile leaders are seen as effective collaborators, and they are significantly more likely to be seen as overconfident by their teams.

Agile Processes, Not Agile People

Instead of focusing on more-agile people, organizations must build more-agile processes. While our model of potential—ability, aspiration, and engagement—is still a relevant and accurate predictor of leadership success, you need processes that can effectively align these components to evolving organizational needs.

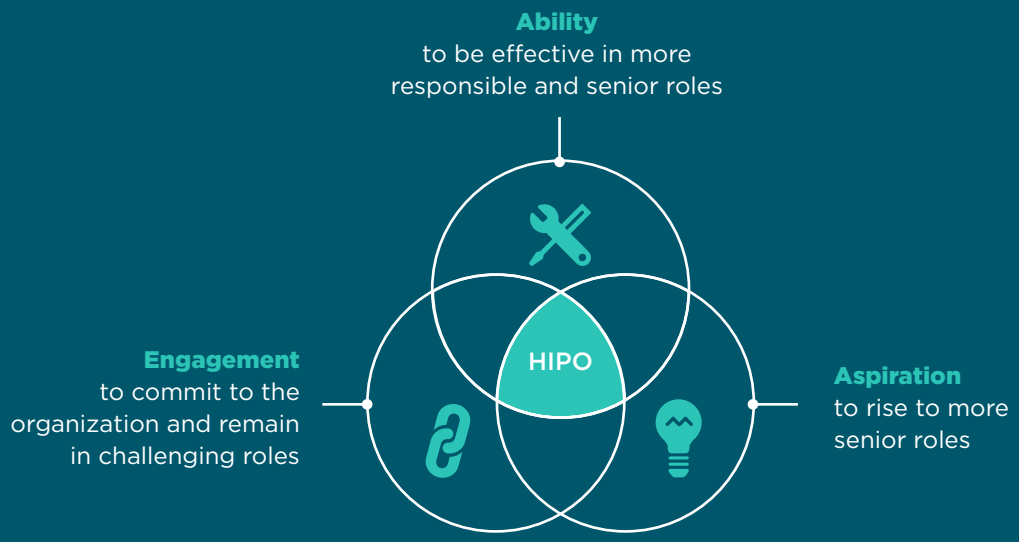
Follow these three imperatives to align ability, aspiration, and engagement with changing business needs to create agile HIPO processes:

1. **Expand** ownership of needs identification beyond HR.
2. Actively **manage** HIPOs' aspiration over time.
3. **Take** ownership of HIPOs' career progression.

Organizations with agile HIPO processes are much more effective at identifying, developing, and engaging their HIPOs and are 70% more likely to have a strong leadership bench. In the following sections, we share examples of how some organizations have implemented each of these imperatives.

[1] Bench strength refers to organizations' confidence in the capability of their leadership candidates to fill current gaps and adapt to changing needs.

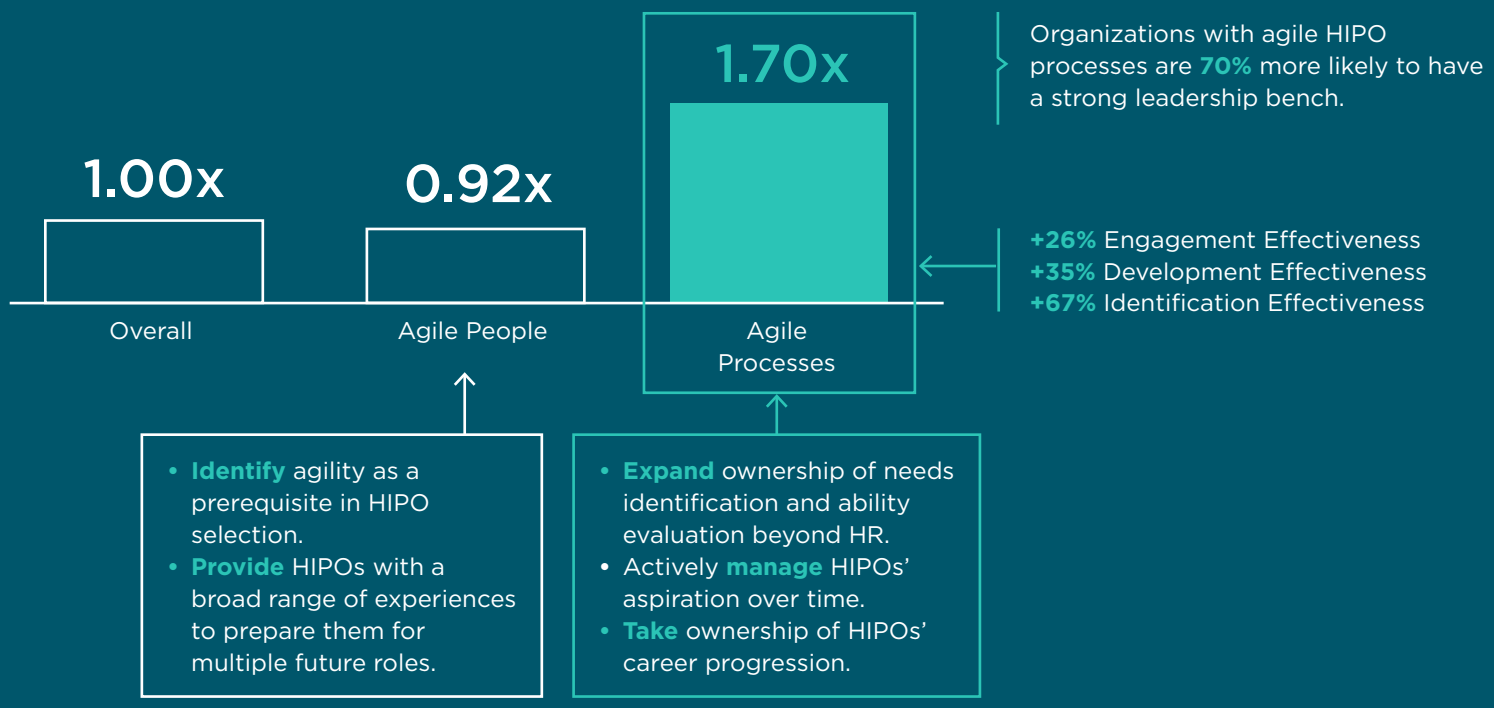
Our Model of High Potential



Source: CEB analysis.

Agile HIPO Processes Lead to a Strong Bench

Impact on Bench Strength of Focusing on Agile People Versus Creating Agile HIPO Processes



n = 142 HR leaders.
Source: CEB 2016 HIPO Survey.

1. Ability:
Expand Ownership of Needs Identification Beyond HR

Success in leadership roles requires a combination of foundational capabilities, which are associated with success in any situation, and context-specific capabilities, which are associated with success in only certain situations.

In rapidly evolving organizations, HR often struggles to quickly and accurately identify changing leadership needs. In fact, 72% of leaders don't believe current HIPO identification criteria are accurate and relevant. To improve, HR must expand ownership of needs identification beyond the function to include stakeholders such as line managers, customers, or other business functions, who are closer to changing business needs and can provide a more accurate view of context-specific requirements.

> "I get leaders calling and saying, 'I have an opening. I need to see the HIPO list' because they know there are people on that list who are likely to be a good fit for their specific needs. And when leaders place HIPOs in those roles, they see quicker progress due to the amount of thought that has gone in to ensuring that person is right for the role."
>
> Jennifer Landis
> VP HR
> Black Hills Corporation

To ensure alignment with changing business needs, **Black Hills Corporation** embeds HIPO needs identification in its talent review process, the Organization and Leadership Review. Rather than requiring managers to apply and calibrate against a standard, fixed set of HR-defined HIPO criteria, Black Hills empowers leaders, with support from their HRBPs, to evolve a portion of their criteria as their context changes.

This business-driven identification approach positions Black Hills to rapidly redeploy HIPO talent when specific needs arise because leaders are more confident in the HIPO pool's alignment with specific organizational needs.

2. Aspiration:
Actively Manage HIPOs' Aspiration Over Time

Most HR leaders believe HIPO aspiration is primarily innate and only marginally fluctuates over time as a result of personal factors. However, we find that aspiration can fluctuate by as much as 23% over the course of a HIPO's career and is influenced by organizational factors such as major change initiatives, not just personal factors. These organizational factors can affect aspiration by opening up new opportunities, making opportunities more obscure, or making it more difficult for HIPOs to see a path to leadership.

Amid changing aspiration, organizations risk misallocating their resources by either investing in HIPOs who no longer aspire to their organizations' leadership roles or failing to invest in individuals whose aspirations are aligned with organizational needs. To mitigate this risk, organizations must proactively manage aspiration by helping employees identify their path to leadership, communicating about the future career implications of major changes, and capturing and responding to changes in aspiration over time.

Cochlear's Leadership Presence Program encourages women to aspire to more-senior roles by enabling participants to identify an attractive and realistic path to leadership. Specifically, the program provides coaching to help participants reflect on how their strengths and career goals align with leadership roles at the organization and connects participants with peers and leaders who have knowledge of cross-organizational leadership opportunities.

> "Participants changed as a result of the Leadership Presence Program. More than two-thirds took on new responsibilities after completing the program, and the vast majority demonstrated greater aspiration by wanting to contribute more and to be more involved."
>
> Anne-Marie Leslie
> SVP HR
> Cochlear Ltd.

3. Engagement:

Take Ownership of HIPOs' Career Progression

Failure to provide the right progression opportunities can decrease HIPO engagement and increase turnover risk by 15%. Organizations typically struggle to provide the right progression opportunities at the right time because of scarce promotion availability and overreliance on HIPOs' managers.

Fortunately, promotions are not the only way to meet HIPOs' need for progression. Giving HIPOs the opportunity to progress their capabilities can have an even greater impact on HIPO engagement than focusing on compensation or promotions. Unfortunately, the managers who are often charged with providing those opportunities often have difficulty locating them because they either lack visibility outside their unit, are reluctant to export their best talent, or simply don't have enough time to devote to this effort amid competing priorities.

Metro Inc. creates valuable and sustainable in-role progression for HIPOs by delegating some responsibilities from their manager and redistributing the HIPO's responsibilities among the rest of the team to sustain the new role redesign. As a result, the HIPO receives a meaningful stretch opportunity without performing two roles simultaneously, and the HIPO's teammates get exposure and broader responsibilities as well. At the same time, the HIPO's manager can focus on more value-added projects.

> **"The creation of [this HIPO's] new role has enabled him to not only strengthen his achievements and absorb new management knowledge but also to be better known among key stakeholders in our organization. There is no doubt that this approach will allow [him] to have a faster and steadier progression of knowledge and skills in order to be better equipped for a broader role at Metro."**
>
> Richard Pruneau
> Senior Director
> Merchandising
> Metro Inc.

Conclusion

In a rapidly changing business environment, most organizations struggle to design HIPO strategies that successfully identify and develop leaders for uncertain future roles. Although most organizations focus their strategies on finding and retaining agile people, the most successful organizations create agile HIPO processes that align ability, aspiration, and engagement with evolving business needs. Individual agility is still important, but agile HIPO processes will set the best organizations apart by strengthening their leadership bench amid constantly changing needs.

Why It's Time for HR and Risk to Work Closer on Culture **(and How Analytics Is the Key)**

By **Stephen Scott and Matt Dudek**

On the surface, the heads of HR and Risk may not seem like natural allies in the C-suite. After all, such executives tend to come from very different backgrounds, operate with distinct worldviews, and frequently have divergent priorities.

About Stephen Scott
Stephen Scott is the Founder and CEO of Starling Trust Sciences. Starling is an enterprise technology company at the intersection of behavioral science, network analysis, and machine learning (AI) in a space it calls "predictive behavioral analytics." Starling's software interprets the behavioral trends driving performance and risk in real time, producing insights that enable management to capture opportunity before it is lost and to mitigate risk before it cascades into crisis.

For instance, CEB research finds that top-of-mind business risks occupying company risk managers in 2016 included an unpredictable political landscape and technological disruption. This was true across the United States, in Europe, and in Australia and New Zealand.

By contrast, change management initiatives topped CHROs' list of priorities: leadership development, talent management, and succession management. Engagement and retention are a regular focus for HR leaders, and this continued to be the case in 2016.

But as we move into 2017, heads of HR are increasingly concerned about a specific type of change management: corporate culture. They view creating greater alignment between culture and company strategy as an emerging focus. A majority of those surveyed by CEB (92%) agree that organizational culture significantly affects financial outcomes, placing culture at the top of the CEO and CHRO agenda.

Notably, less than half of heads of HR believe that their actual company culture is consistent with the desired culture that is deemed essential to business strategy. Unsurprisingly, three-quarters of organizations report anticipated culture change initiatives in 2017.

These culture changes are where CHROs and chief risk officers (CROs) will come closer into one another's orbits. As featured in the "Setting Priorities for 2017" article in this issue, while a majority (89%) of CHROs believe that culture change initiatives are a central part of their role in the organization, only 30% believe that it is primarily up to HR to successfully implement such initiatives. Critically, only 37% of senior HR executives say their teams can adequately define the metrics and collect the data relevant to successful culture change.

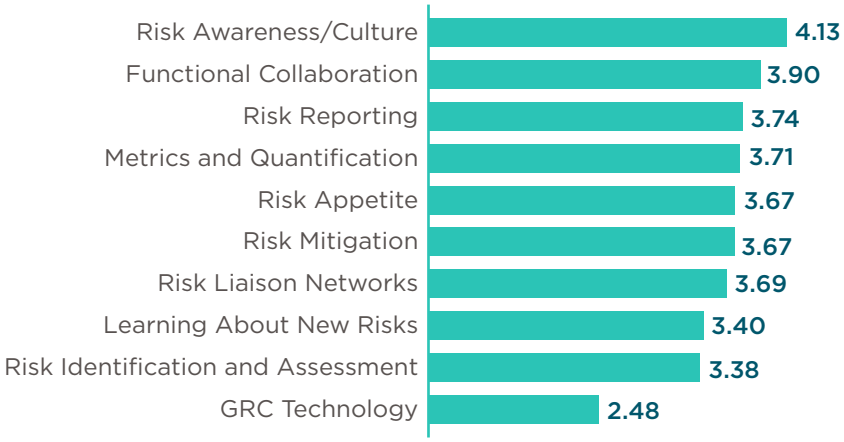
Such challenges and limitations among HR teams are neatly offset by the strengths typical of Risk functions. Traditionally, the CRO's primary role has been to quantify risks on "hard" issues such as physical or financial assets, using a toolbox that draws extensively on data and analytics. Big data analytics is a top-five concern for risk managers around the world. On the other hand, "soft" issues, like culture, have not typically been the domains of CROs.

But this is now changing, as Risk functions focus more on enterprise risk management (ERM). ERM takes more of a strategic approach to risk by establishing oversight, control, and discipline behind an entity's risk management capabilities for tangible and intangible assets. Indeed, our research shows that CROs' top enterprise risk challenges for this year include risk awareness, culture, and functional collaboration throughout the organization. Such concerns are, of course, more typical of the HR organization, which offers CROs a set of strengths and experience that risk managers don't typically have.

At the same time, HR is looking to bring more analytic rigor to its work: 68% of heads of HR plan to enhance organizational talent analytics capabilities in 2017. This creates a unique opportunity for Risk and HR executives to bring a new level of rigor and insight to culture through big data.

Most Important ERM Challenges to Solve in 2017

Ranked by Average Importance from High to Low



n = 11.
Source: CEB 2017 ERM Priorities.

One area where heads of HR and Risk can deploy the combined strength of their analytics capabilities is in better understanding the intersection of culture and employee misconduct. High-profile crises over the past year, seen at firms ranging from banks to the automotive and traditional manufacturing sector as well as among high-flying Internet startups, have put culture and related conduct risk high on the agenda of regulators, legislators, and prosecutors.

This concern has in turn placed culture and conduct risk more prominently on the radar for senior management. Because such issues involve employee behavior, HR is called to the fore. But because such behaviors represent risks to the organization, the CROs are also marshaled.

This trend has been most pronounced in the banking and financial services sector, where many firms are now creating standing management committees made up of representatives from the HR and Risk offices. We expect this trend to extend into all heavily regulated sectors and among firms seeking to adopt emerging best practices.

Key questions heads of HR and Risk should consider together include the following:

1. How do we define our most critical talent segments and quantify their value (and risks)?
2. What underlying processes drive employee conduct? Which processes are most likely to negatively impact employee conduct (unintentionally)?
3. What proactive measures should we prioritize to aggressively guard against employee misconduct in our critical talent segments?

"Drucker once said that culture eats strategy for breakfast," notes Nigel Morris, founder of Capital One. "It's pretty clear to me that culture eats compliance for breakfast. Rules-based checking cannot deal with a rotten culture." It is therefore unsurprising that culture is a core concern for CHROs and CROs alike as we head into 2017.

CEO Onboarding: **The Need for a Real Plan**

Investigating the CHRO's Undefined Role in CEO Onboarding

By **Emilie Uhrhammer and Danielle Douglas**

"You take for granted the fact that you're hiring or promoting pretty senior people and that they know what to do and how to get things done. In many cases, no true onboarding process is provided—the CEO is being appointed and is told to just get on with it. The lesson is having a level of discipline around onboarding...be it culture, be it how things get done around here, how things get approved, the dynamics of the board, how that's going to work. It's important that an incoming CEO really understands what that process is and what the dynamics are."

Ben Lawrence
CHRO
Wesfarmers Limited

Many organizations have recognized the cost of failing to engage in effective CEO succession planning—about $112 billion of missed market revenue for large companies.[1] But organizations tend to ignore another key talent management process when it comes to CEOs: onboarding. We found that many companies do not onboard their CEOs systematically and do not maintain formalized programs or templated processes to help with onboarding. The result: an increased risk of costly succession failure. With CEO turnover at 16.6% in 2015—a record high since 2000, when it was 12.9%[2]—organizations can no longer afford to neglect this key issue.

Today's typical guidance for assisting new CEOs tends to lack depth and fails to clearly assign ownership of onboarding tasks, leaving CEOs to their own very capable, but overwhelmed, devices. While traditional advice tells CEOs to familiarize themselves with the corporate culture, diverse stakeholders, and organizational political dynamics, the responsibility for planning and executing these activities is undefined. One person's role in particular is often conspicuously overlooked: that of the CEO's top HR executive.

Identifying the Head of HR's Role in CEO Onboarding

Heads of HR intuitively know to get involved at several points during a CEO's transition, such as facilitating introductions and briefing the CEO on the corporate culture. However, the typical advice written to CEOs fails to reinforce the critical knowledge transfer and transition activities their CHROs can and should engage them on.

Even in today's world, where talent is increasingly important to business strategy, surprisingly few resources explicitly guide HR executives on arguably the most important employee transition their organization will undertake. As a result of this lack of resources and the recent rise in CEO turnover, HR executives are asking us to look into the following questions they need answers to:

1. **What information should a CHRO bring to his or her first meeting with the new CEO?** CHROs must know how to use this first substantial interaction to build credibility by demonstrating their reliability as a business leader who also knows how to manage talent strategically.
2. **What should the CHRO do to facilitate an amicable and productive knowledge transfer between the outgoing and incoming CEO?** CHROs have to figure out how to lay the groundwork to negotiate and broker this critical transfer of institutional memory.
3. **How does a CHRO partner with the new CEO to provide upward feedback—solicited or unsolicited—on topics that pose a threat to the CEO's vision and leadership?** A CHRO is well positioned to identify potential red flags, particularly those stemming from the executive leadership team. CHROs who establish partnership credibility and successfully navigate these delicate conversations offer invaluable feedback on a new CEO's strategy.

Typical Advice for CEOs During Their Transition

Trends in CEO Onboarding Checklists

- **Create a "First 100 Days" Plan:** Strategically consider which aspects of the job to address and when in your first 100 days. How you prioritize meetings and events will affect your on-the-job learning curve and time to impact.
- **Recognize and Respond to Your Transition Context:** View your transition through a situational lens, carefully tailoring your approach to the type of transition you face given your predecessor's legacy. Understand how the corporate culture and current economic environment affect the scale, scope, and timing of changes you may wish to make.
- **Meet Key Stakeholders to Learn What's Working and What's Not:** Embark on an extensive internal and external listening tour to understand what's going on in the business and clarify expectations.
- **Chart and Navigate the Informal Organization:** Cut through the formal organizational structure to learn the informal processes and power dynamics central to an organization's ability to function, allowing you to identify potential barriers to planning and executing changes early in your tenure.
- **Push Yourself to Reflect and Adapt:** You need to recognize and press your own knowledge gaps and be willing to seek out people who can help you close them. CEOs who assume only the organization needs to change, but not themselves, will be set up for failure.

[1] Ken Favaro, Per-Ola Karlsson, and Gary Neilson, "The $112 Billion CEO Succession Problem," *Strategy+Business Magazine,* 4 May 2015.
[2] PwC, *2015 CEO Success Study,* April 2016, http://www.strategyand.pwc.com/ceosuccess.

What CHROs Are Saying About CEO Onboarding

We've spoken with your peers to hear their take on the CHRO's role in CEO onboarding. As you evaluate your own approach, consider their advice:

Don't be afraid to impose some structure—Whether for an internal or external hire, a developed onboarding plan is essential, but it must also recognize the inherent variability in the CEO's daily activities.

"You can treat internal promotions different than an external hire, but in both cases, some type of process is required or some type of program. It needs to be flexible given the fact that these are highly talented individuals, quick learners in most cases, and really want to get on with the task at hand, which is running the company."

Ben Lawrence
CHRO
Wesfarmers Limited

Proclaim your vision—Clearly communicate your vision of how HR should operate in the organization. Advocate for your goals from the start to prepare HR as a strategic partner, ensuring the CEO knows where you stand.

"I was explicit about the things I felt I needed to change in HR…just proclaiming what your vision is, how you think HR should operate within an organization. It should be a strategic partner. We should be aligned with the strategy. We should have the same philosophy on talent management…those are the kinds of questions I think are critical to be aligned on from the very beginning with the CEO."

John Sigmon
CHRO
AARP

Make sure you really understand the CEO's motivations—Take the time to understand the new CEO's goals. Transparent communication will allow alignment in philosophy between yourself and the new CEO and ensure your onboarding program reflects his or her priorities.

"It's incredibly important to look at where the person's coming from—are they internal or are they external—and to think about that first 100 days. I like to keep it really simple. The old phrase, 'You have two ears and one mouth, and use them in proportion.'"

Eva Sage-Gavin
Vice Chairman
Skills for America's Future
Aspen Institute

"We spend a lot of time understanding what are the things for him that are important to achieve, and more critically, what are the key behaviors that he wants to see being exhibited by his leadership team because his leadership team, as an extension, will reflect back what he really aspires to achieve for the organization."

Nolitha Fakude
Executive Director
Sustainability and Business Transformation
Sasol

How well do these questions and advice align with your own questions about and understanding of CEO onboarding? What are you most proud of doing during your most recent CEO transition? Share your questions and best practices with Emilie Uhrhammer on our research team to engage further on this topic.

To stay ahead of the trends your new CEO cares about, consider participating in the CEO 20. This semiannual pulse survey for CEOs and CHROs looks at the top 20 questions they need to be thinking about and discussing together. Participate with your CEO now to understand his or her perspective on how you should work together on talent management priorities, culture change, board issues, digital disruption, and more.

For more CEB materials on this subject, please reference:

- A CHRO Guide to CEO Succession Planning, and
- Accelerating Your Time to Impact: Four Keys to a Successful Leadership Transition.

What You Need to Know About Hiring Your Next CIO

By **Raf Gelders and Andrew Horne**

As data and technology have become prerequisites for doing business, organizations of all types and sizes have to adapt quickly to respond to digital threats and opportunities. CHROs have a unique contribution to make to building a digital enterprise by identifying how the chief information officer (CIO) and other C-suite roles have to change in response to digitization.

77%

of executive priorities are technology dependent.

Disruptive digital technologies such as big data, machine learning, and the Internet of Things are transforming the way companies work, to the extent that 77% of executive priorities today depend on technology. But organizational challenges and a scarcity of talent are common barriers to scaling up digitization efforts. So is the lack of insight on what digitization really means for the organization. Two-thirds of the questions business leaders ask on digitization relate to new digital technologies, not the enterprise changes they will have to make to become a truly digital company.

Despite the hype about digital leadership roles such as chief digital officers (CDOs), our conversations with hundreds of business leaders show that digital transformation should be the responsibility of the entire executive leadership team, not just one individual. Understanding the profiles of executive leaders who can thrive in a digital world and attracting, developing, and retaining them will be key to creating competitive advantage and driving digitally enabled growth.

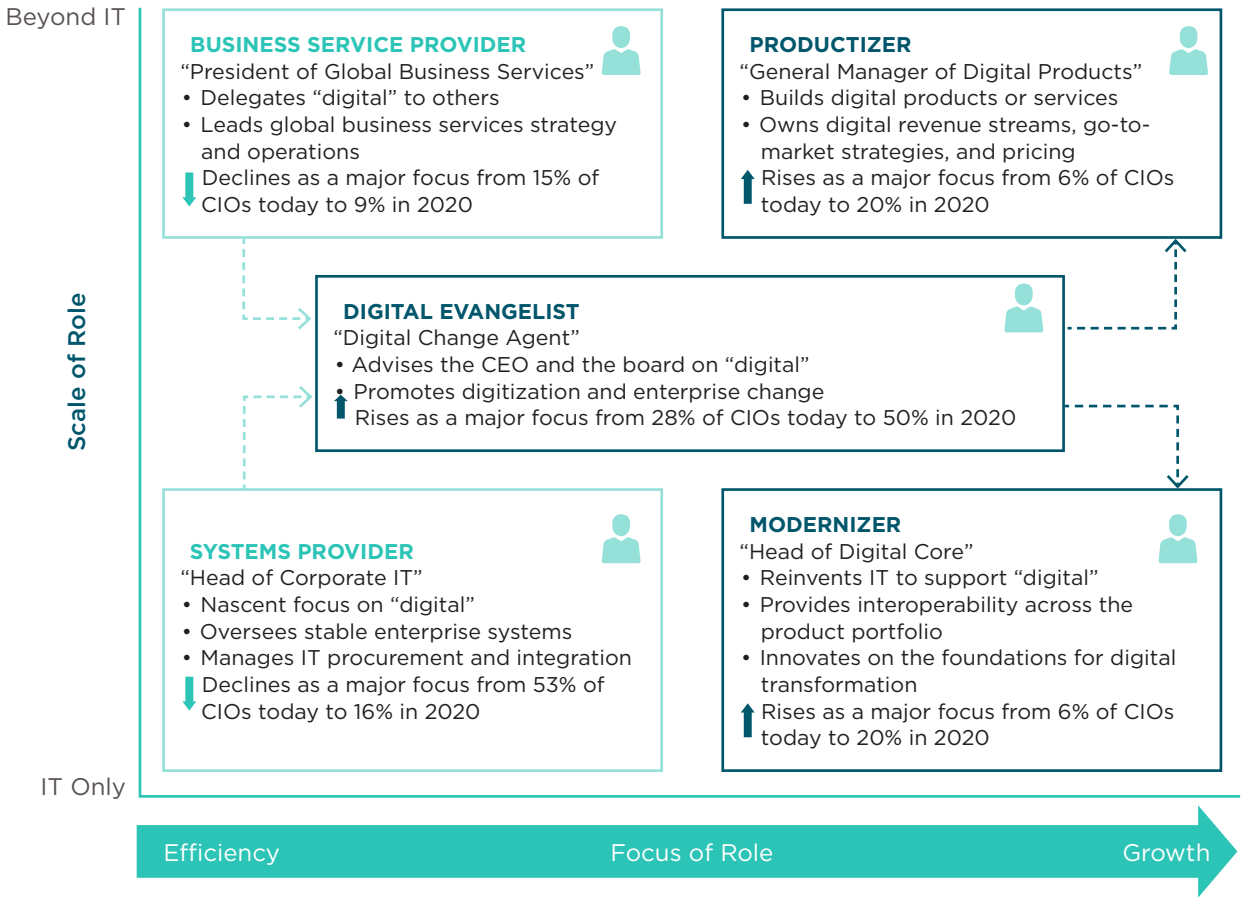
Along with other corporate leaders, CHROs have a pivotal role to play in preparing the organization for digitally enabled growth. Topping the list of contributions CHROs can make is the development of an executive leadership bench that can collectively work to embed digital capabilities in the company's DNA. To do so, CHROs should assess the types of leadership required for a digital world and evaluate existing technology leadership roles against the maturity of the company's digitization efforts. To help heads of HR assess the leadership their organization needs in a digital world, we looked at how companies are changing the roles and responsibilities of the CIO in response to digitization.

The number of CIOs who focus on traditional concerns will decline by more than **60%** in the next few years.

The Decline of the Traditional CIO

CIOs are experiencing significant change in the scope of their roles. Our conversations with more than 100 CIOs have helped us identify five career trajectories CIOs are taking as their focus changes in scope (from efficiency driver to growth driver) and scale (from IT only to beyond IT).

CIO Career Trajectories for Digitally Enabled Growth



n = 55 CIOs and senior IT leaders.
Source: CEB 2016 CIO Annual Executive Retreat Survey.

The paths are not mutually exclusive. Most CIOs spend the bulk of their time on one path and dedicate effort to elements of the others. As CHROs work to develop a digital leadership strategy, they must realize that different organizations need CIOs on different paths based on the maturity of their digitization efforts and the digital ambitions and abilities of the rest of the corporate leadership team.

That said, CIOs should start with a clear view of which role best fits their organizational profile. While the CIO role can be defined in five ways today, organizations will have to choose carefully, as two of the profiles will lead them away from digitally enabled growth:

- **Systems Provider**—This is the traditional CIO role that focuses on managing stable enterprise systems, aligning IT strategy and business strategy, and overseeing IT procurement and integration. These CIOs aim for efficiency and reliability and typically have only a nascent focus on digitization, either because their organization isn't mature enough yet or because another executive has taken the lead.
- **Business Service Provider**—Some CIOs have expanded their roles by assuming leadership of global business services. These CIOs typically delegate digital transformation and day-to-day management of corporate IT to others and instead spend time enabling cross-functional synergies and consolidating shared services and outsourcing relationships.

Today, 53% of CIOs are systems providers, but only 16% will hold that role by 2020. Although most business service providers aspire to pursue digitally enabled growth, the time and political capital spent on other responsibilities take attention and resources away from digitization. As a result, the percentage of CIOs who act as business service providers is set to decline from 15% today to 9% in 2020.

The number of CIOs who focus on building next generation digital platforms or developing digital products or services will **more than double** in the next few years.

The Rise of the Digital CIO

At more progressive organizations, digital CIOs pursue three of the five CIO career paths:

- **Digital Evangelist**—Many CIOs are becoming digital advisors to the CEO and business functions, including HR. These digital evangelist CIOs put next generation technology capabilities into context and explain how they can enhance or transform the enterprise's products, channels, and operations. CIOs in this role also highlight (and when required lead) the organizational changes that are essential to digitization's success.
  - The digital evangelist is an important but transitory role that requires less time as the organization becomes digitally savvy. The percentage of CIOs who act as digital evangelists will increase from 28% today to 50% by 2020.
- **Modernizer**—CIOs in this role build and manage the next generation technologies and platforms that support digitization, and they enable interoperability of digital product portfolios. Modernizers work closely with their company's digital channels and products but leave the ownership of these areas to others. The modernizer career path is the most natural progression for CIOs currently in a traditional role. By 2020, 44% of CIOs will be modernizers.
- **Productizer**—These CIOs build and manage revenue-generating digital products or services. They are effectively general managers with revenue targets and sales responsibilities. Twenty percent of CIOs will become productizers by 2020, primarily in industries with little track record of digital products or services. Elsewhere, other leadership roles already own digitally enabled revenue streams.

Digital transformation is better managed as the distributed responsibility of the entire executive leadership team. At a time when CIOs are redefining the scope of their role to support digitization, CHROs can make a unique contribution by understanding the leadership implications of broad-based digitization. As a first step, this task entails designing a digital leadership strategy that evaluates existing technology leadership roles against the maturity of the company's digitization efforts.

As a second step, this digital leadership strategy should assess the roles of the wider corporate leadership team, not just the CIO. Existing technology leaders have just as much responsibility to take on new duties for digital transformation as the broader corporate leadership team has to build its own digital expertise and experience. A digital CIO, after all, will only thrive in a C-suite that embraces digitization.

Prepared for Departure?

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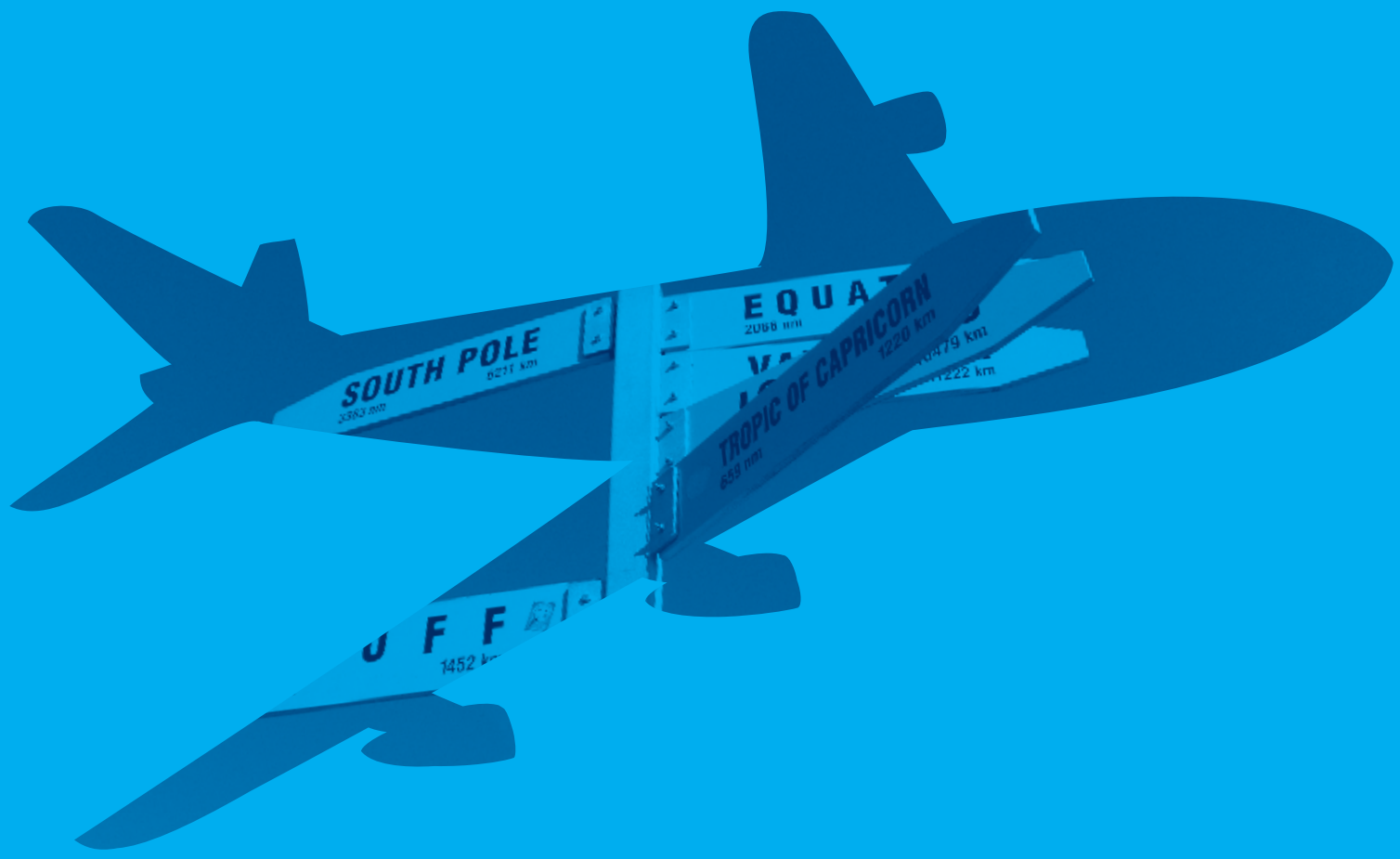

Launch your **exit survey** now to see why your employees are dissatisfied and leaving.

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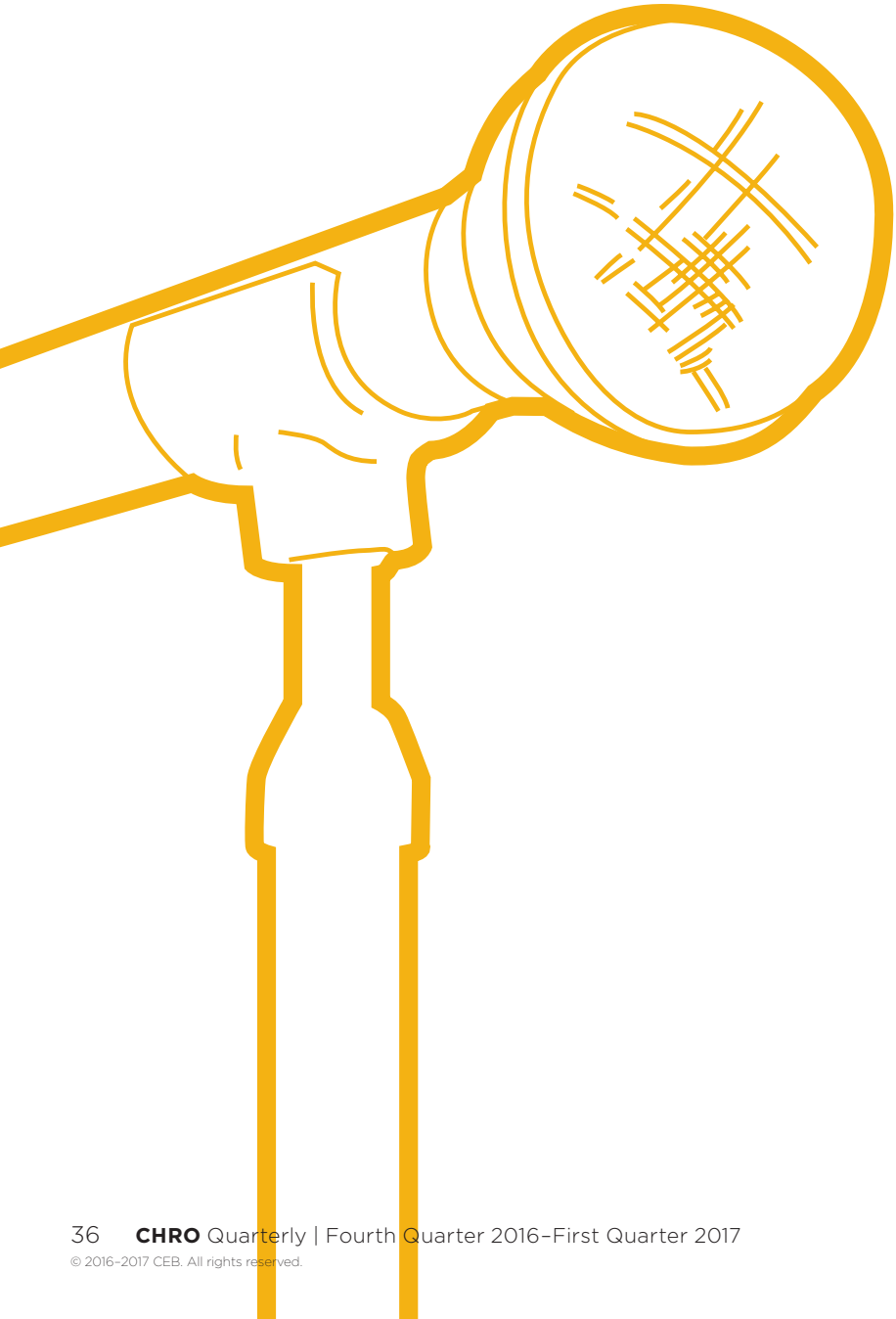
WHAT THE BEST COMPANIES DO

Voice of the CHRO

By **Matt Dudek**



Every quarter we interview chief HR executives to gain their perspectives on issues facing the HR function. This quarter, we spoke with Bernardo Quinn about how Telefónica handles major organizational changes.

Telefónica

About Telefónica and Bernardo Quinn

Telefónica is a multinational broadband and telecommunications provider. Based in Madrid, it provides service to customers in Europe and the Americas. Bernardo Quinn is the Global HR Director for Telefónica, where he is responsible for over 130,000 employees. He has been with Telefónica for over two decades.

Thank you for speaking with us. You recently spoke at our ReimagineHR conference in London about culture change. One of the first points you made is that it is impossible to differentiate cultural change from business change. What do you think are the most underrated and overrated elements in how HR teams must design and drive culture change?

BERNARDO QUINN: It is indeed almost impossible to try and change culture without relating to what is happening in the business.

Underrated: How big of a challenge it is and the time it takes (years). Also underrated are the key role of the most senior leaders in setting the tone and realizing that small inconsistencies can break everything apart.

Overrated: Trying to identify the three or five key buzzwords that will define the perfect culture rather than focusing on actual behavioral change.

Heads of HR tell us one of the key pain points in a culture change is the time lag that exists from when the desired culture is articulated and practiced by leadership to when employees modify their behaviors, beliefs, and norms. When have you encountered a time lag in a culture change, and what are one to two recommendations you have to accelerate the change?

BERNARDO QUINN: Changing *things* requires a lot of effort and time, but changing *culture* and therefore *behaviors* requires much more time. Something I learned over the last several years by looking at many companies facing challenging situations is the existence of what I have called the "disconnection factor." We tend to think that everyone within a company is aware of the situation the company is in and the real challenges it is facing. But reality has shown me that usually most people are minding their own business and very much focused on the projects, areas, and challenges around them and therefore do not necessarily have a clear picture of the overall situation of the company.

One of the possible reasons is that, in general terms, we try to share the positive news or nice things that are happening within our companies, so we cannot blame anyone for not knowing what is really going on. I have personally checked this very often by asking questions to managers across the company about the company's financial results to find out that, in general, there is not a clear and common view of what is going on. Therefore, my strongest recommendation would be to avoid the disconnection factor and shorten the time lag by telling the right story behind the need to transform or adapt, sharing all information, the good and the not so good. At the end of the day, treat people like adults and trust them.

> "My strongest recommendation would be to avoid the disconnection factor and shorten the time lag by telling the right story behind the need to transform or adapt, sharing all information, the good and the not so good."

In order to build a compelling story to generate traction and get people to move in the desired direction, the story behind the transformation must always include two elements: 1) Some sense of urgency, showing people clearly that remaining where we currently are is not an option and we need to get out of the current situation, and 2) a positive vision of the future that is brighter than the existing situation.

You have a book you recently wrote on business transformations, *Defying Doom: Leading Urgent Large-Scale Transformations.* In there you identify several ways for heads of HR to focus on executing business and cultural change. Which of these

execution activities have you found hardest to get right? What should HR teams stop doing and start doing differently to increase their probability of success?

BERNARDO QUINN: Some key execution success factors:

- **Focus, focus, focus.** When facing a challenging turnaround, you cannot expect to continue doing everything you were working on before. You need to set priorities and have the whole organization focus around them. I used to think that by defining the priorities people would stop doing other projects, but experience has shown me that this does not occur automatically.
- Therefore, another element to keep in mind is to identify the **"stop doing" list,** which in many cases may be as important as the priority lists. Only by making explicit decisions and communicating them to the organization will you be able to free up resources and redirect them to other more important tasks.
- **Set up a zero-based budget** since it can help to cut the inertia and actually stop doing things.
- **Find a common external enemy** so the whole company focuses on keeping customers from competitors and avoid blaming other internal departments for the situation the company is in.
- **Allocate time and resources** consistently.
- **"Walk the talk,"** making sure your agenda is wisely distributed around the priorities you have identified.
- **Define simple key performance indicators** and rewards systems based on the key priorities that will allow you to keep track of the transformation.
- And last but not least, **tackle transformational elements** that may take many months to accomplish while you also identify and make quick wins around iconic moves. These quick wins, when communicated adequately, will allow you to create the right momentum around change.

"We stopped participating in annual surveys when they overlapped with existing ones."

In HR we also stopped doing things. We stopped running programs centrally from Global HR that our business leaders were not willing to pay for from their local budgets. We stopped participating in annual surveys when they overlapped with existing ones. We focused on changing and simplifying all our HR processes by implementing a cloud-based SaaS standard IT solution, and we placed a lot of energy in switching off existing legacy systems.

The role of leaders in culture change is often a critical focus area for organizations, and they invest a lot in leaders' storytelling and role modeling abilities. At the same time, we're seeing a movement toward a more "open-source," democratized approach to all sorts of changes. The best leaders seem to empower employees to influence the change strategy and even own change implementation. Given that, what do you see as the biggest difference in leaders' role in business/culture change today compared to several years ago?

BERNARDO QUINN: Today, leadership is more about emotionally managing the team to get the most of each person rather than managing projects and tasks. In this context, leaders must recognize that it is more difficult to expect to know all the answers. Therefore, it is a must to engage all employees before embarking on a change program.

At Telefónica, we extensively used internal social media platforms to engage directors and then the entire company in discussing key strategic issues. Last year, for the first time ever, we launched a two-month process using internal social media to engage all 130,000 employees in a strategic conversation around important topics for the future of the company. This was led personally by our CEO, and the results were great.

We were not sure what the outcome would look like when we started the process but quickly gathered a lot of very relevant information from people from all over the company about what our customers were demanding, what the market was doing, and where we should be placing more focus. We also asked our people to vote on several topics to get their perspective on certain topics.

We then used this information and results when we held our company-wide transformation program kickoff. People saw their concerns and suggestions had been taken into consideration. Historically, this type of event was limited to directors. In this opportunity, since we had solicited everyone's feedback, we decided to broadcast the whole management presentation live and directly reach 130,000 employees. Not surprisingly, people loved it and gave us the best feedback ever.

What you're describing is a fairly extensive strategic partnership with the leadership at your organization. Generally speaking, what do you think the CHRO's responsibilities are when it comes to a major change? Are there things for which HR should not be responsible?

BERNARDO QUINN: Indeed, a strategic partnership among all senior business leaders is one of the key success factors when trying to make change happen. Every senior leader should be responsible for his or her area of expertise, and the biggest role a CHRO can play is making sure that the story behind the transformation is consistent.

There are some specific elements that need to be led by the CHRO, such as making sure as a company we will have the right talent and organization for the future. What I have noticed recently is that in many different areas, a significant amount of time and resources are spent to

try and plan for the next three to five years for future IT investments, for example, but traditionally very little time is spent to think about the longer-term implications around talent and organizations.

Paradoxically, it is the talent element that requires the longer time frame to solve and is usually a conversation that does not occur or happens very late in the planning process. Making sure we have the right and timely conversations around talent for the future will require a great effort because at the end of the day, final decisions around changing talent or organizations will require buy-in from every leader.

I also think the CHRO should not feel as though they are the single person responsible for the company´s culture. Culture is the consequence of the aggregated behaviors of every single person in the company and is mainly shaped by the senior management team. Trying to own the culture piece in isolation would be a big mistake.

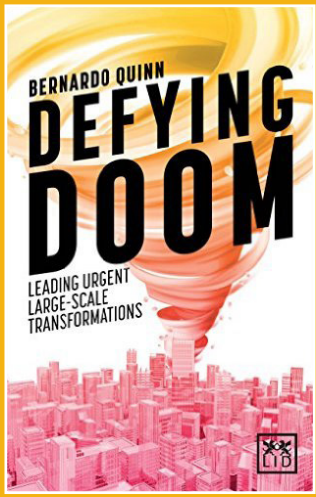
Business and culture change often take years to complete. That can mean that key leaders who initiated these changes may leave before they're completed. And then new leaders come in without the context behind the change. How can HR leaders ensure that momentum is not lost as current leaders leave and new ones join the organization?

BERNARDO QUINN: Indeed, culture changes will take years, and consistency is key.

Something we can and should do from an HR perspective is have a clear story behind the transformation and show the longer perspective of the journey we are on. I also think we should make sure we use all existing—traditional and new—communication channels to ensure the message resonates throughout the organization.

Finally, what business trends is your CEO asking you about right now that you want to discuss the next time you meet with other heads of HR?

BERNARDO QUINN: The world is becoming digital, and change is accelerating. We need to adapt our company to make sure we are fit for the future. We need to think of our company from an "end-to-end digital" perspective. We need to obsess about keeping our customers at the heart of everything we do and, therefore, kill all complexity that sits inside the company. That's what I want to talk about.



See Bernardo's recent book ***(Defying Doom: Leading Urgent Large-Scale Transformations)*** to learn more about his framework for tackling major change initiatives.

By
Hannah Muldavin and Scott Engler

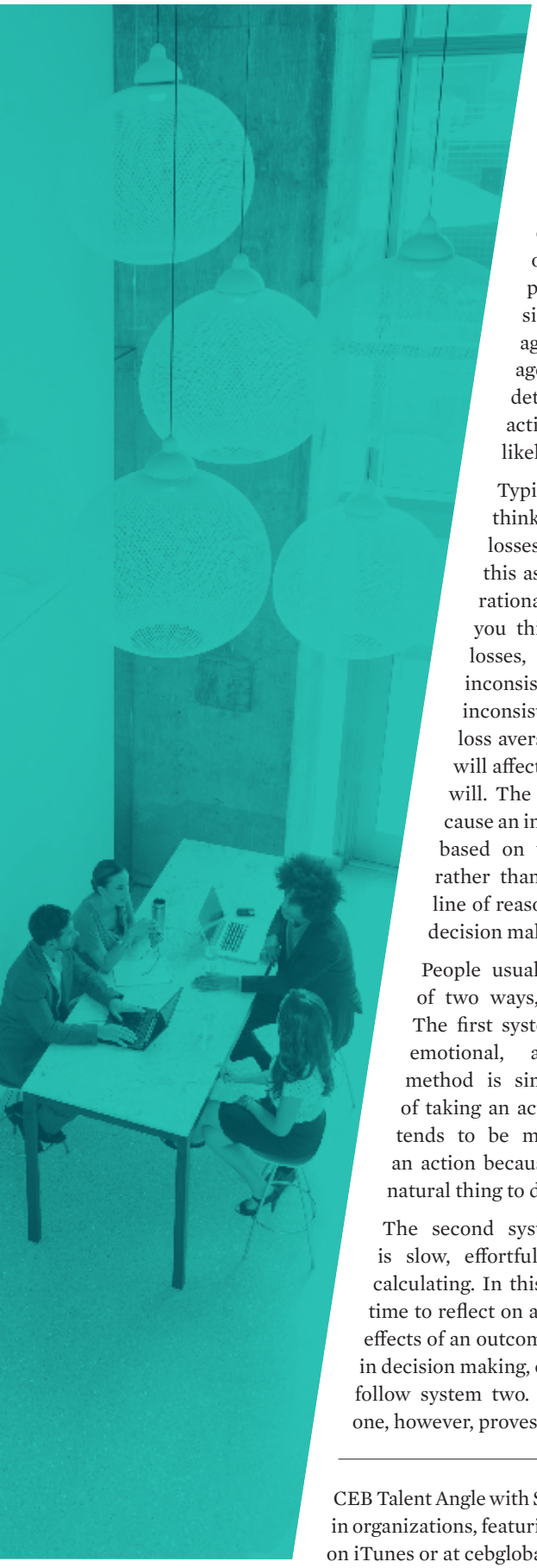
Combat Bias to Make Better Decisions

A Conversation with **Daniel Kahneman**

Every day, people make countless decisions in an organization—everyone from a new hire to the CEO. In the current work environment, where work is multidirectional, reporting lines are complex, and markets are unpredictable, constraining decision making to those at the top of the organization has become even harder and more unrealistic.

However, this trend can benefit organizations: involving more employees in decision making for a change initiative increases the probability of change success by as much as 24 percentage points.

But more inclusive decision making also presents a challenge: organizations must ensure their employees are making accurate decisions for the business. We talked to Daniel Kahneman, winner of the Nobel Prize in Economic Sciences and senior scholar at the Woodrow Wilson School of Public and International Affairs, about his research on natural human biases and the tactics individuals and organizations can use to make better decisions.



How We Make Decisions

To determine how to make the best decisions, we first need to understand how individuals make decisions in the first place. Kahneman explains that contrary to one's natural assumption, people rarely make decisions based on the rational agent model. In the rational agent model, decision makers determine their course of action based on a decision's likely consequences.

Typically, however, people think in terms of gains and losses. Kahneman describes this as a "big departure from the rational agent model because if you think in terms of gains and losses, you are going to make inconsistent decisions." These inconsistent decisions stem from loss aversion, or the idea that a loss will affect someone more than a gain will. The desire to avoid a loss may cause an individual to make a decision based on what he or she will lose rather than an ideal final state. This line of reasoning is where inconsistent decision making arises.

People usually make decisions in one of two ways, according to Kahneman. The first system is automatic, frequent, emotional, and subconscious. This method is similar to intuition—instead of taking an active role in a decision, one tends to be more passive, carrying out an action because it feels like the right or natural thing to do.

The second system, on the other hand, is slow, effortful, infrequent, logical, and calculating. In this type of system, one takes time to reflect on a decision, looking at all the effects of an outcome. To maintain consistency in decision making, organizations would ideally follow system two. The prevalence of system one, however, proves hard to eradicate.

System one is popular partly because it is easy. People operating in system one will often bend evidence they are presented with to fit an existing story. Kahneman describes this phenomenon as cognitive illusion. Cognitive illusion is powerful because "you know that what you see is wrong, but you can't help yourself," Kahneman explains. In a cognitive illusion, "we generate stories that explain our belief, and then we have the impression that our beliefs are explained by those reasons. But that is an illusion."

Cognitive illusion lends itself to availability bias, as well. Availability bias, Kahneman elaborates, is "anything that comes to mind easily [that] has an advantage in our thinking and is likely to influence us." Ideas, thoughts, and experiences that are top of mind and that seem to make sense will likely occur again. This type of associative thinking dominates the mind, which functions primarily by this type of association.

Overcoming Biases in Decision Making

Overcoming these biases individually can prove tenuous. For individuals, thinking occurs quickly. People use intuition and other shortcuts daily with simple acts, such as driving home from work while maintaining a conversation.

When it comes to organizations, however, Kahneman is more optimistic. Although individuals' ability to control biases by "recognizing situations where you're likely to make an error... and slow[ing] yourself down [to] try to compute the answer in a different way" can be difficult, organizations' ability to implement procedures and norms advantageously positions them to combat some of these tendencies.

Organizations and individuals tend to "short-circuit the process of decision making to reach an intuition and to reach a feeling that you have solved

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CEB Talent Angle with Scott Engler is a podcast about talent and creating performance greatness in organizations, featuring thought leaders from inside and outside the corporate world. Listen on iTunes or at cebglobal.com.

the problem prematurely," according to Kahneman. We can still achieve this feeling and make more logical decisions, Kahneman argues, by delaying intuition.

Delaying intuition requires evaluating a decision in multiple stages. "What's important in reaching accurate decision making is making your judgments independently of each other so that you will not have the effect of the first thing that you heard biasing your interpretation of all the rest," Kahneman says.

Organizations can see this pattern internally in the hiring process, where the first candidate's performance may affect how a hiring manager views the succeeding candidates. To combat this, Kahneman suggests deciding before the interview the four or five characteristics you are looking for in a candidate.

Teams and Combatting Biases

Organizations can also use exercises in team settings to yield better outcomes. For example, Kahneman advises having a session where a team can "embrace the crazy." This "pre-mortem"—an invention of experimental psychologist Gary Klein—involves assuming that a team's idea has failed, in effect "embracing the crazy" circumstances that could make a project go awry. Together, the team discusses the presumed history of the failure and all the possible ways the idea could have collapsed. This exercise illuminates "a lot of objections that they hadn't seen earlier" and allows the team to dissect the idea more critically, Kahneman says.

This exercise illuminates "a lot of objections that they hadn't seen earlier" and allows the team to dissect the idea more critically.

Teams are also beneficial when a risky decision needs to be made. Individuals making a risky decision will tend to be risk averse. This tendency makes sense for the individual; if he or she makes a wrong decision, he or she is the only one to blame. If a team makes a risky decision, however, the blame will be dispersed among the entire unit. Using a team to make important decisions will naturally fight these individual risk-averse biases.

Conclusion

Making smart decisions will always be hard. As decision-making power expands to individuals throughout the organization, your best bet is to use organizational procedures and teams to delay the intuition that naturally prompts you to make biased decisions. As Kahneman notes, "Every organization, every business, is a factory for making decisions. They make multiple decisions at the same time. Yet we tend to be much more rational and much better organized when we design factories than when we design decision-making procedures." By acknowledging these biases, organizations can begin to approach projects and ideas rationally while both empowering individuals and achieving business results.

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