

## New expectations for a new era

*CHRO insights from the Global C-suite Study*

## Chief Human Resources Officer insights from the IBM C-suite Study

This report draws upon input from the 4,183 CxOs we interviewed as part of IBM's first study of the entire C-suite. It is the 17th in the ongoing series of C-suite studies developed by the IBM Institute for Business Value. We now have data from more than 23,000 interviews stretching back to 2003.

Total CHROs interviewed	342
Japan	82
Asia Pacific / Australia, New Zealand	32
Europe, Middle East and Africa	130
North America	56
South America	42

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The 2013 C-Suite Study, “The Customer-Activated Enterprise,” identified three defining characteristics of successful future organizations:

- **Opening up to customer influence** — breaking down barriers to extend collaboration inside and outside the organization, and bringing customers’ voices directly into the boardroom
- **Pioneering digital/physical innovation** — fusing traditional activities with social, mobile and digital networks to create new products, services and business models.
- **Crafting engaging customer experiences** — creating and enhancing seamless interactions that fulfill customer expectations and differentiate the organization.<sup>1</sup>

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## Introduction

Newly empowered and enlightened customers continue to expect more of the organizations they interact with, demanding instant communication, personalized service and opportunities for co-creation. The 2013 IBM C-suite study, “The Customer-Activated Enterprise,” delivers a clear message: the emergence of social, mobile and digital technologies is playing a significant role in the democratization of the relationship between organizations and their customers.<sup>2</sup> Whether it’s a retailer competing for the hearts and minds of teenagers in Rio, or an electronics company in Dublin looking to stave off its global competitors, they both have a common objective: to better understand, involve and excite their customers in ways that differentiate them from the competition.

The essential bridge between the organization and its customers is the workforce. The ability to engage, develop, recognize and support employees will be critical in the decisive battle for customer loyalty. It is these individuals who represent the organization’s brand in the market, who interact with customers on a daily basis, who analyze changes in customer preferences and who develop and maintain the technologies that help connect the physical and digital worlds. And, therefore, a motivated and properly prepared workforce will be indispensable for success in the customer-activated world.

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*“We must marry the customer and the workforce of the future – determine customer needs and develop a workforce that can seize the moment. We need to determine how to really give clients what they want with an engaged workforce that can creatively deliver.”*

**Banking CHRO**, Canada

Given the importance of talent in this customer-activated world, is the HR function prepared to deliver the needed skills and capabilities for the business to succeed? Is HR ready and able to help organizations stay one step ahead in an environment where customers are becoming increasingly more informed, vocal and involved in the day-to-day operations of the organization?

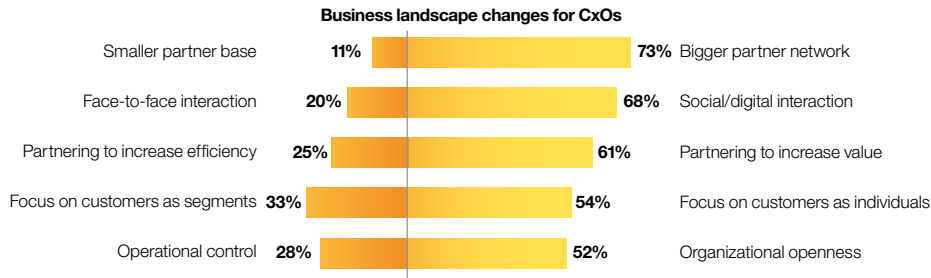
Through our analysis of the C-suite study responses from 4,183 senior executives from 70 countries, we see companies taking important steps in developing a workforce that can compete in a customer-driven world. Included in this analysis is a deeper examination of the 342 Chief Human Resource Officers who participated in the study.

## Becoming customer-activated

CxOs recognize they will have to partner more extensively, looking for others in their ecosystem that can help deliver increased value to end customers (See Figure 1). They see the importance of greater social/digital interaction, communicating with—and learning from—their customers in new and innovative ways. They will need to emphasize organizational openness, increasing transparency within the organization and across boundaries.

**Figure 1**

*Changing landscape: Intensive customer focus will require a more collaborative, flexible and transparent workforce*



These changes will have a notable impact on the workforce and, we believe, constitute a significant shift in the priorities of the HR organization:

- **Manage the critical roles needed to drive the customer-activated enterprise**

Changes in current and future customer demands will require companies to pay attention to a new set of “focal” or pivotal workforce roles.<sup>3</sup> Not only will organizations have to address traditional customer-facing positions, such as sales and customer service, but also those that create unique digital experiences. Examples include roles such as mobile device architects, “community” managers who bring together customers from around the globe to share insights and provide support, data scientists who derive unique customer insights, and design specialists who engage customers directly when new products and services are being designed and built. These roles will vary from industry to industry and may be very different in an organization that focuses on consumers versus business-to-business relationships.

Once new roles are identified, HR efforts will need to focus on the unique needs of these roles—whether recruiting new talent, providing specific training interventions or implementing retention programs to hold on to specific knowledge and skills critical to understanding and delivering differentiated customer experiences. Also, organizations will have to dive deeper into the motivations of individuals in these roles and how to engage them effectively. By understanding these ongoing engagement drivers, companies will be more likely to tune their HR programs to better attract, retain and drive productivity from individuals in these roles.

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- **Use analytics to enhance customer value**

Workforce analytics can play a significant role in delivering customer value. More effectively matching customer traffic with employee schedules, ensuring an ongoing supply of qualified candidates and retaining individuals in pivotal roles all require a comprehensive understanding of the organization's workforce. Analytics can enable companies to more easily recognize trends, predict potential outcomes and anticipate unforeseen risks.

However, to make analytics work, HR needs to create an environment — both within the function and across the organization — that recognizes the value of analytics-based decision making. According to a recent IBM Institute for Business Value analytics study, addressing issues around culture and trust are central to the effective use of analytics at all levels of the organization.<sup>4</sup> Further, workforce analytics need to be built into the day-to-day activities of line managers. Managers who regularly work with employees and customers will need to be aware of the impact of employee-related decisions, ranging from hiring, to scheduling, to retention. Keeping data in the hands of a limited number of back-office analysts not only will limit the use of data, but will also breed mistrust in the quality of the conclusions.

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*“We need to think about human capital the same way as any other asset to achieve a return, and an analytics system can help us get to this.”*

**Retail CHRO**, United States

*“HR must be the champions of an internal social network, a master brand strategy and the employment brand. We must deliver new ways of thinking about attracting and engaging employees, focus on innovative ways to deliver content and learning, and champion the use of mobile devices to be more socially responsible.”*

**Banking and Financial Markets CHRO**, Canada

- **Address emerging digital challenges**

In a world that more closely links digital and physical experiences, emerging technologies will have significant implications for the workforce and how day-to-day activities will be accomplished. Mobile devices will have a notable impact — not only on “bring your own device” (BYOD) policies, but also on where and how work is accomplished. The use of social media places greater focus on the importance of digital reputation management and provides insights from the wealth of unstructured data coming from the digital universe. Greater collaboration, both inside and outside the organization, will raise a variety of issues, from what can or cannot be shared with others, to how individuals who make innovative contributions as knowledge connectors or brokers are identified and recognized. HR needs to take a strong role in addressing the people implications of emerging digital challenges, as these issues will continue to take a more prominent role in future workforce effectiveness.



## Investing in the customer experience: CHROs are on board

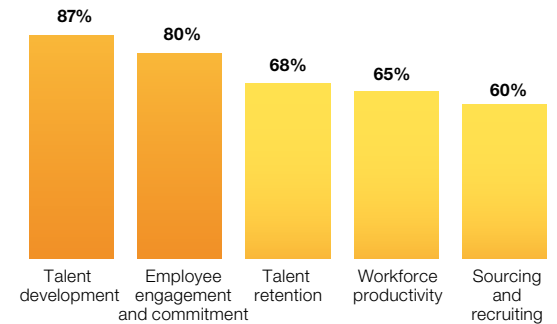
Based on these changes, is the HR function ready to take on these new responsibilities? Much like their peers in the C-suite, CHROs recognize the need to build a better understanding of their external customers. Only 31 percent believe they understand their customers well today, while 78 percent believe they will need to have a greater understanding in the next three-to-five years. Unsurprisingly, financial outperformers are more likely to already have a stronger understanding of their customers (44 percent versus 28 percent of all other firms).

CHROs are also looking to invest their personal time into improving the customer experience. While 28 percent say this is an area of direct involvement today, 38 percent indicate they will spend more time in this area over the next three-to-five years. As one CHRO in Germany told us, “We need to realize and reflect what we know, are capable of accomplishing, and make it usable to our customers. Often even our customers don’t know what potential they have, and we want to help them to recognize their abilities.”

Talent development and employee engagement rank as CHROs’ highest current priorities. Over the next three years, CHROs see two additional topics taking on increasing importance in enabling the customer-activated enterprise: collaboration and knowledge sharing (up from 55 percent today to 92 percent in three years) and the rapid development of workforce skills and capabilities (from 57 percent to 89 percent).

**Figure 2**

*Important issues: Top five workforce related challenges*



*“The HR function is striving for innovation through the use of social tools for the development of internal collaboration and for a better connection to the outside: this is made difficult by the lack of a digital strategy.”*

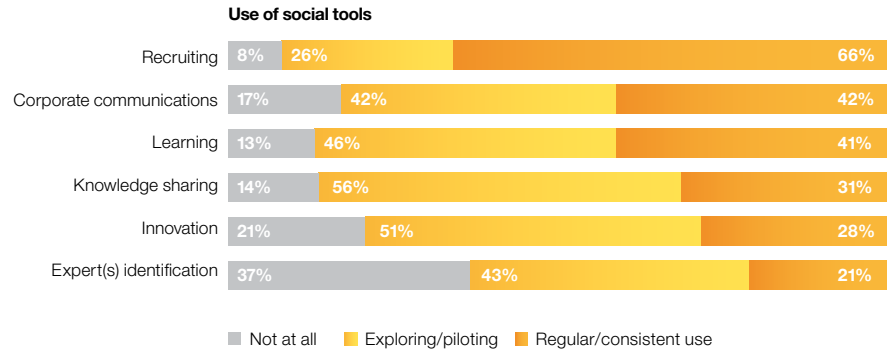
**Life Sciences CHRO, Italy**

## New expectations for a new era

CHROs are starting to see the importance of social capabilities to address key workforce issues (See Figure 3). They have made significant headway in social recruiting, with two-thirds indicating their organizations use this on a regular basis. However, for the remainder, a large number are still in the initial stages of applying social approaches to critical organizational issues, such as knowledge sharing, innovation and expert identification. Given the overwhelming importance that CxOs in general are placing on social and collaborative capabilities, this is clearly an area where senior HR executives will have to focus more of their time and attention.

**Figure 3**

**Going social:** CHROs are in the early days of applying social approaches within the organization

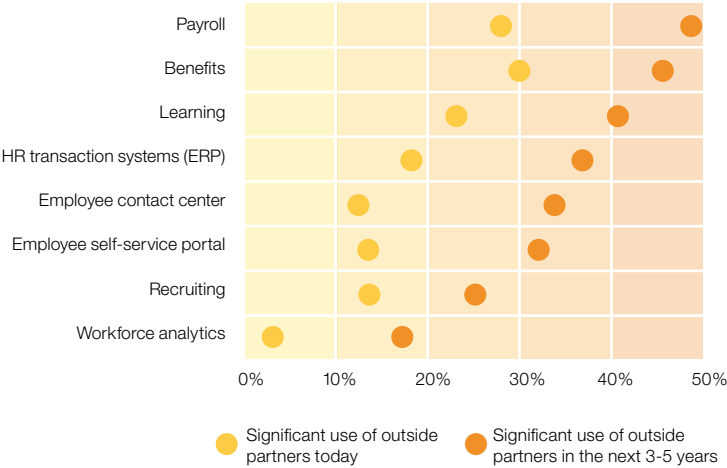


CHROs are also becoming increasingly aware their organizations cannot (or should not) fly solo. Given the strategic pressures that CHROs are under, it is not surprising they are looking to find alternatives to activities that often take up significant time, resources and organizational focus. They recognize the need to have more specialized firms perform activities that can be accomplished at a lower cost with higher value.

For example, a partner potentially could provide mobile support for employee administrative tasks for a firm that might not be able to invest significant resources to develop this capability internally.

Over the next several years, our study results indicate, we will see a notable shift in the processes that will be performed outside the organization. Nearly half the companies will be looking for partnerships in the administration of payroll and benefits. Significant increases in the use of outside partners are expected in learning, HR transaction systems and employee contact-center management. Even tasks traditionally performed in-house, such as recruiting, will be shared to a greater extent with external organizations (see Figure 4).

**Figure 4**  
*Increasing partners: The HR function is increasingly looking to work with outside partners across a number of dimensions over the next several years*



## Overcoming hurdles

While it is clear that CHROs want to become more engaged with customer efforts at a strategic level, it is not as apparent that others in the organization perceive the HR function as having the capabilities or the mandate to participate. Our study points to key areas that could impede HR's ability to contribute to the development of a customer-activated enterprise:

### **Addressing HR's strategic capabilities**

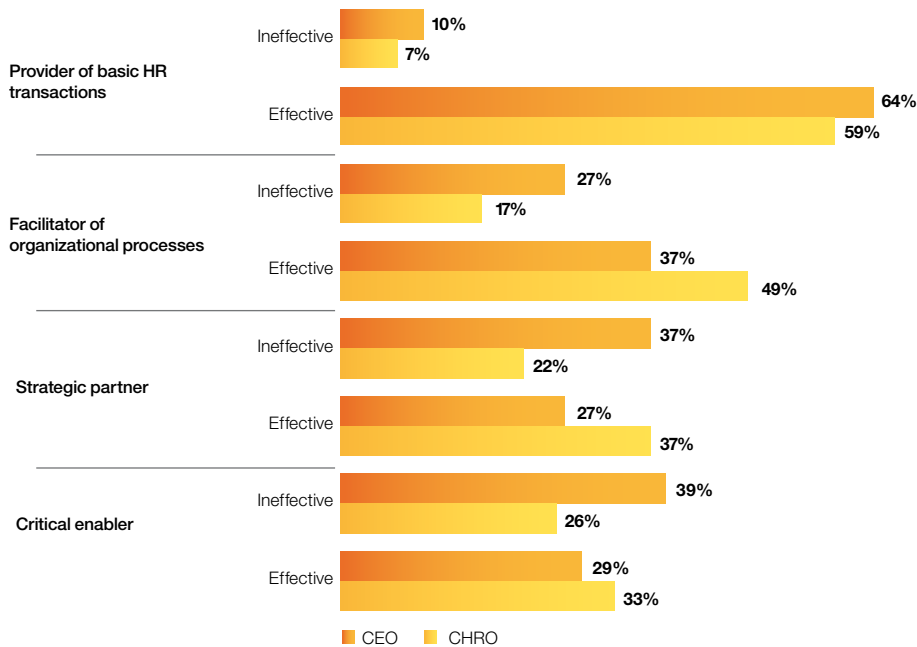
Compared to other functional groups, HR is still not viewed as being at the forefront of making strategic contributions. For instance, CEOs indicated they are as likely to work closely with the CHRO as they would with the CMO or CIO. Yet, when asked which senior executives are significantly involved in formulating the organization's business strategy, only 35 percent of CEOs mentioned the CHRO. This contrasts to 72 percent who involved the CFO, 63 percent for the CMO and 42 percent for the CIO.

Both CEOs and CHROs agree that HR is perceived in their organizations as a provider of basic HR transactions and a facilitator of organizational processes (see Figure 5). While almost two-thirds of CEOs believe HR is an effective provider of basic transactions, fewer see it as a facilitator of organizational processes, a strategic partner or critical enabler. These findings suggest that, in the eyes of many companies, the HR function still remains on the fringes of influence in the strategic decision making process.

However, when looking across all non-CHRO respondents to the study, we find that financial outperformers are more likely to identify HR as strategic and critical. While there is limited difference in how HR is perceived as an effective provider of transactions (59 versus 56 percent), financial outperformers are more likely to see HR as a strategic partner (30 versus 19 percent). While the percentages from financial outperformers are not much different from the perceptions of CEOs overall, they do suggest that companies with better financial performance view HR as a greater contributor to overall success.

**Figure 5**

*Transaction focused: Both CEOs and CHROs agree that the HR function is perceived as more transactional and process oriented*



*“We have to create the culture, capability and capacity to enable us to meet our growth ambitions – where ‘culture’ is leadership, ‘capability’ is skills and ‘capacity’ is making the matrix work.”*

**Retail CHRO**, United Kingdom

### HR remains critical of its ability to address key workforce challenges

When asked to evaluate the effectiveness in addressing a number of workforce challenges, CHROs are overall fairly critical of their capabilities. The highest-rated capability, talent retention, is considered effective by only six of ten CHROs (See Figure 6). Further, in areas such as talent management, skill development, collaboration and knowledge sharing—areas we see as critical to serving customers in new and innovative ways—less than one-third indicate they are effective.

**Figure 6**

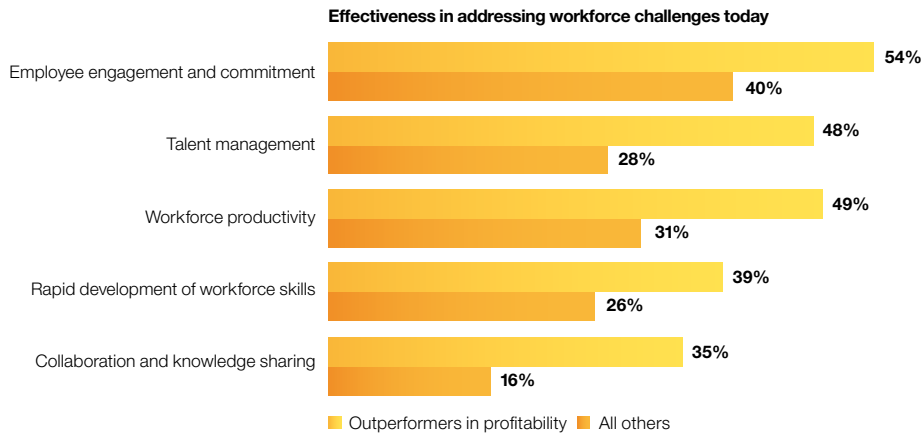
*Addressing talent: The majority of CHROs believe in their ability to retain talent, but are less effective in other major workforce capabilities*



Financial outperformers recognize the value in addressing these issues (See Figure 7). Across a number of key workforce capabilities, financial outperformers rated themselves significantly more effective than the population as a whole. While it is difficult to directly draw the linkage between greater effectiveness and improved performance, it is still demonstrative of the actions that higher performers are taking in this space.

**Figure 7**

*Effective outperformers: Financial outperformers are much more likely to identify themselves as effective in addressing workforce challenges*



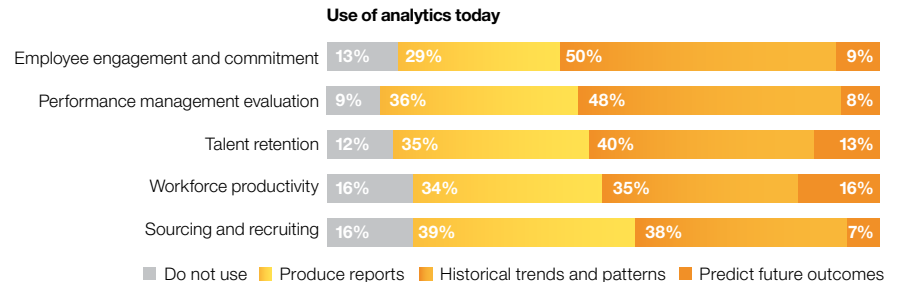
### From insights to action: Analytic capability remains a work in progress

To contribute to the strategic process, one of the clear prerequisites is the ability to apply analytics in a manner similar to other functions, such as Marketing, Finance and Supply Chain. In this study, we see some progress in advancing the analytics agenda within the HR organization, but only a few companies are taking full advantage of its potential. “The challenge is getting data fast, knowing how to store and analyze it and determining how quickly it can be turned around,” said a U.S.-based CHRO.

Today, less than 60 percent of organizations are truly tackling workforce analytics (See Figure 8). Employee engagement, performance management and talent retention top the list in the use of historical data. The most common area for the use of predictive analytics is workforce productivity, but only 16 percent of companies indicate they do this.

**Figure 8**

*Workforce insights: Just over half of organizations are truly tackling workforce analytics*





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Many companies struggle to use analytics to balance the ongoing demand for talent with the supply of needed skills and capabilities. Whether matching salespeople on the floor to customer demand, or balancing the availability of IT architects to projects, this is an important organizational capability. Yet, only 34 percent of organizations have a common skill taxonomy, only 26 percent have forecasting models that link demand for products/services to labor requirements, and only 20 percent use analytics to track the quantity and availability of specific skills. Given the need to more closely bring individuals with the right skills and experience to engage with customers—and the importance of addressing shortages in areas such as IT and skilled manufacturing—the need is significant for companies to take a more scientific approach to matching talent supply and demand.

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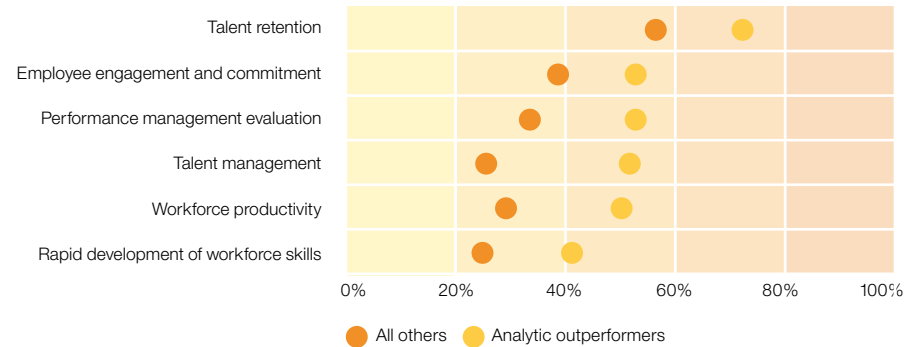
*“We need to focus on talent management and how it can support the overall strategy. Where do we get the talent from? How do we need to be organized? What skills are needed? This has a huge impact on the well-being of the organization.”*

**Electronics CHRO**, United States

Overcoming these challenges and applying more advanced workforce analytics provides clear and tangible benefits. We found companies that consistently use workforce analytics are significantly more likely to be effective in addressing a range of workforce challenges, such as talent retention, employee engagement and performance management (See Figure 9). The notable difference in the level of effectiveness among these groups suggests that analytics can play an important role in assisting companies in solving difficult workforce challenges.

**Figure 9**

*Talent and data: Organizations with more analytics prowess are better able to tackle key talent-related challenges*



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## Taking action: Three areas of focus for the CHRO

CHROs see the value they can provide in enabling the customer-activated enterprise and want to play an active role in making it a success. However, the perception of others in the C-suite suggests that HR needs to step up to the challenge and demonstrate its strategic acumen to make this needed contribution. We believe three areas of focus can help HR build the customer-activated workforce of the future.

### **1. Apply science and analytics to the art of talent management.**

Companies need to apply the same rigor to their workforce as they do in knowing and anticipating the needs of their customers. They can no longer afford to manage key talent by gut instinct; rather, they need to augment their wisdom data and scientific analytics to drive decision making.

Organizations need to develop models that identify high-performance drivers across each essential role and use these drivers to more effectively recruit, develop and retain individuals with those critical capabilities. This is especially true for positions in which a large number of individuals are doing similar work and in which there is a high variation in performance.

Understanding the need for critical skills and capabilities during different time horizons also becomes increasingly important. For a retailer, this may be about hourly scheduling, while, for an engineering company, it may be about matching individuals to projects that could last weeks or months. For a healthcare provider, it could be about attracting nursing and allied health professionals over a course of years.

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*“We need to do a better job over the next few years of projecting the skills needed in the future and planning for it. Currently, we hire and then we may realize that these employees may not have the right skills.”*

**Government CHRO**, United States

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## Bringing science to talent management

An entertainment company used a scientific approach to understand its talent pipeline. It needed to attract and retain the right people to provide excellent customer service to drive sales and cut down on high turnover rates. The company developed a model to identify the characteristics of its highest performers throughout the system and incorporated the findings into its applicant-tracking and assessment platform. As a result, the company was able to decrease their turnover, decrease overall training costs and increase profitability, all notable increases in an industry where small changes in margin have a major impact to the organization as a whole.<sup>5</sup>

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Organizations also must understand the networks that bring employees together and identify those most effective in fostering the organization's collective intelligence. Understanding the dynamic of these underlying networks can help individuals on-board more effectively, gain access to key information and identify new career opportunities.

### **2. Build social capabilities into the fabric of the organization.**

Transparency is the hallmark of a customer-activated enterprise in how customers interact with employees and how employees engage with each other. Social platforms provide the opportunity for individuals on both sides of the firewall to make suggestions, share tips and hints, brainstorm solutions and innovate.

The starting point for social capabilities is increasing the visibility of expertise and by providing individuals with the opportunity to locate and connect with others who have needed skills and capabilities. Whether it is a customer looking for a repair person with a specific skill, or an employee searching for a colleague who has addressed a particular in-house challenge, expertise will serve as an important form of currency that can be explicitly recognized in social environments. This will mean that the social profile will become the currency of expertise and reputation over the next 5-10 years.

Technology is only one part of the equation. Social capabilities must be embedded into the way work is accomplished for individuals. A culture of openness and recognition must permeate the organization's unwritten rules and norms. "Now, everything is shared with everyone," commented a CHRO in the United States. "Organizations need to be transparent. It is important to build trust with customers and ensure you continue to do what you say over a long period of time."

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Learning is another area in which social capabilities can have a significant impact. For a generation raised on multimedia and social networks, learning has become an interactive, collaborative experience. Operating manuals and study groups are fast being replaced by tablets, videos and online chats. Corporate learning professionals, in industries as diverse as insurance and food services, are recognizing the need to incorporate more social experiences into their learning programs.

Finally, emerging technologies that can mine social and other forms of unstructured data are starting to provide HR with a range of new capabilities. These “systems of engagement” can be used to monitor ongoing employee and candidate engagement and highlight key issues of concern or appreciation. Advances in areas such as text analytics and cognitive computing can enable organizations to extract insights from sources as diverse as call center conversations, innovation events, blog postings and candidate job boards. Additionally, they can help identify emerging employee concerns, track areas of brand strength and weakness and even provide direct guidance to employees on a host of traditional HR topics.

### **3. Work with internal and external partners to unlock new sources of value and deliver new capabilities.**

HR cannot (and should not) be expected to completely reinvent the organization by itself. Internally, HR needs to come together with many of its functional partners to address a range of customer-engagement related issues. Topics, such as branding (which requires close involvement with Marketing to synchronize customer and employee perspectives), collaboration (often driven by the CIO office) and even risk (frequently owned by the Finance and Supply Chain Management functions), are all areas in which the HR function should be intimately involved to fully address people-related issues.

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## **Using social for knowledge sharing**

Boston Children's Hospital has grasped the value of social. Recognizing the need to share knowledge beyond traditional boundaries, it created a first-of-a-kind social learning platform that mimics a global apprenticeship model. This platform combines guided learning pathways and simulations with a social network that enables a global community of pediatric care practitioners to learn new procedures, share local practices and bring critical knowledge to all parts of the globe. The initial release is now available in 78 countries and more than 200 cities.<sup>6</sup>

Further, HR needs to work with strategic partners to deliver services that improve employee engagement and foster productivity. In an era of HR “consumerization,” where functionality and speed are increasingly important, external partners can provide technologies and resources that augment those of internal staff. Whether around mobile employee self-service or calculators that enable employees to take control over their health care and finances, working closely with outside firms can enable HR to extend its value and take advantage of investments made by others.

Cloud computing represents a rapidly developing capability that can drive new partnerships with both internal and external providers. It provides the backbone through which a host of new HR services and capabilities can be delivered, either for HR staff or directly to employees. Cloud computing shifts technology costs from a capital to an operating expense, frees companies from dependence on IT support for legacy systems, and allows companies to think differently about their operating processes. Further, it can facilitate the accessibility of HR data, making it easier for organizations to tap into this increasingly valuable resource, especially through the use of mobile devices.

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Cloud based services also change the nature of the relationship between the providing vendor and the client: the ability to issue more frequent updates requires a closer, more intimate connection and ongoing dialogue within the partnership.

Finally, HR needs to be more involved in influencing the extended workforce. As companies continue to use a more flexible workforce in customer-facing roles (and indeed in any roles), HR needs to take greater accountability in ensuring that these individuals are effectively representing the corporate brand and values. While contract and temporary workers traditionally are managed through a procurement organization, HR needs to have a strong hand in addressing the skill and engagement needs of these workers. Whether it is adding extra sales personnel during a busy holiday season, or using an outside firm to manage a call center, organizations need to provide non-traditional employees with the training and guidance to provide a positive image of the firm.

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## Partnering to change culture

Facilitating culture change is one area where companies can look to partner to augment their existing capabilities. Barclays, a major financial services company headquartered in the United Kingdom, embarked on a program to make Barclays the “Go-To” bank for all its stakeholders. Central to this program is a set of five key values fundamental to the company’s long-term success: respect, integrity, service, excellence and stewardship. Ensuring that the business collectively understood these and put them into practice required more than presentations and articles in the company newsletter.

To address this challenge, Barclays collaborated with an external partner to host a global collaboration event to engage colleagues around the world around these values. More than 49,000 employees registered for the Barclays Values Jam, 35,000 of whom logged into the intuitive web portal to participate. As a direct result of the Jam, Barclays senior leadership validated new initiatives designed to address process and improve communications between general employees and senior managers.<sup>7</sup>

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*“As a change agent, we drive forward the radical reform of corporate culture.”*

**Technology CHRO**, Japan

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## Conclusion

CxOs from around the globe are clear in their expectations: customers are going to play a greater role in the life of the organization. From providing insights into new products and services, to sharing personal information designed to tailor specific offerings, customers will become more active, more vocal and ever-more demanding. HR will be increasingly dynamic in delivering differentiated value. Going forward, the composition, skill set and knowledge of the workforce will be major drivers of the transformation to a customer-activated enterprise.

Even so, this remains a journey in progress. Aligning talent with needs, the use of advanced workforce analytics, and tapping into the collective intelligence of the organization are all areas that continue to need focus.

The voice of the customer is only going to get louder, and if HR is to capitalize on its potential to become a strategic driver of the organization, these gaps must be addressed. Customers are providing the opportunity; it is now about how HR responds. Timing is everything, and the time is now.



## How we conducted our research

This report is the fifth installment in our ongoing Global C-suite Study, the seventeenth such IBM study to focus on the C-suite and the first to cover six major roles simultaneously. Our aim was to get a better understanding of the opportunities and challenges the members of the C-suite face, and how they are working together to support their organizations.

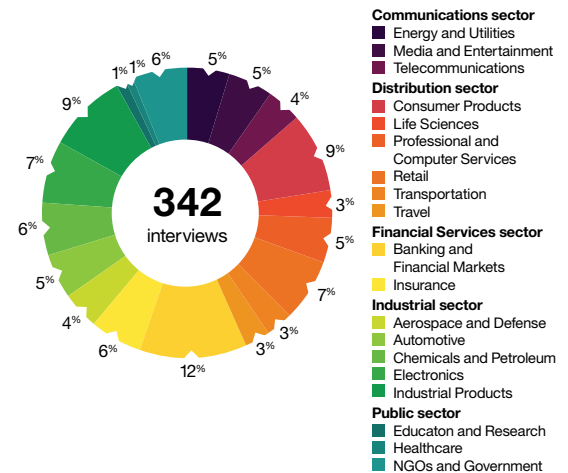
Between February and June 2013, we met with 4,183 top executives representing a wide range of public and private sector enterprises in more than 20 industries and 70 countries. They included 884 Chief Executive Officers (CEOs), 576 Chief Financial Officers (CFOs), 342 Chief Human Resources Officers (CHROs), 1,656 Chief Information Officers (CIOs), 524 Chief Marketing Officers (CMOs) and 201 Chief Supply Chain Officers (CSCOs).

This installment focuses on the responses of the 342 CHROs from around the world who participated in our study (see Figure 10). It also compares their responses with those of the 3,841 other CxOs who contributed to our research.

Our research includes an analysis of the differences between the responses of CHROs in financially outperforming enterprises and those in underperforming enterprises, based on how CHROs assess their own organizations. We asked CHROs to rate their organization's three-year revenue growth and profitability relative to that of their industry peers. Enterprises that excelled against both measures were classified as outperformers; those with low rankings were classified as underperformers; and the rest were classified as peer performers.

**Figure 10**

*Sector spread: The CHRO respondents represent a diverse set of industries*



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**IBM Institute for Business Value**

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