

**Center for
Executive
Succession**

CFO and CHRO Succession: *Comparing and Contrasting the Roles*

Results of the 2017 **HR@Moore** Survey
of Chief HR Officers

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Executive Summary

The 2017 **HR@Moore** Survey of Chief HR Officers, conducted by the **Center for Executive Succession**, focused, in part, on the Chief Financial Officer (CFO) role and succession practices. Using data from this, and past surveys, we were able to compare and contrast the CFO and Chief Human Resources Officer (CHRO) roles.

First, Chief Executive Officers (CEOs) view the CFO as the primary steward of the financial resources of the firm, expecting them to deliver in terms of capital allocation, financial objectives, and earnings per share/operating profits. On the other hand, CEOs view the CHRO as the steward of the human capital of the firm, expecting them to deliver talent, succession planning, growth, and culture.

Second, CFOs and CHROs both have multiple other functions reporting into their roles. While some functions are just as likely to report to either role, CFOs are more likely to have Mergers and Acquisitions/Corporate Development, Procurement, and Supply Chain reporting to them, while only CHROs have Security, Corporate Social Responsibility, and Safety reporting to them.

Third, CFOs and CHROs cooperate around a number of important organizational issues. A number of

CHROs stated that they collaborate on “Everything” but more specific issues such as “Compensation,” “Benefits and rewards,” “Strategic input,” and “Workforce planning” were identified as areas requiring significant cooperation. A number of CHROs also reported that they and the CFO were highly aligned with little conflict. When conflict existed, it normally emerged from tradeoffs where CFOs wanted to cut or not increase investments in areas that might impact talent, engagement, and culture.

Fourth, consistent with past research, CFOs were far more likely to be promoted internally than CHROs. We also found that if the current role holder were to depart, CFOs would be more likely to be replaced by an internal candidate than would CHROs. Our results suggest that this is not due to different successor development practices as few differences were observed in this area. However, CHROs offered a number of explanations for the differences including “Insufficient successor development,” “Limited relevant knowledge,” “Emphasis on CHRO/CEO relationship fit,” “Externals provide an outside perspective,” and “Limited board and executive experience.” We attempt to explain these results by noting the difficulty in creating an HR career path that can develop business acumen, trust with the CEO, and ability to navigate the board.



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Overview

The **Center for Executive Succession** has continued to develop as the objective source of knowledge about the issues, challenges, and best practices regarding C-suite succession. Past studies have examined a number of aspects of CEO and CHRO succession. However, with the 2017 **HR@Moore** Survey of Chief HR Officers, we sought to focus on the CFO role and CFO succession.

The survey was sent to 505 CHROs in May of 2017, and 134 responded for an overall response rate of 27%. Previous reports from this year's survey results have explored the diversity of the CEO succession pool ("Diversity in CEO Succession Pools: Present State, Past Obstacles, and Future Solutions") and the relationships among the CEO, Board, and executive leadership team (ELT) ("Inside the C-Suite: The CEO, Board, and ELT").

In developing the section of the survey for examining CFO succession, we relied on a number of questions asked regarding CHRO succession in the 2014 and 2016 HR@Moore

Surveys of CHROs ("CHRO Succession: Results of the 2014 HR@Moore Survey of CHROs"; "The Changing Chief HR Officer Role: Result of the 2016 HR@Moore Survey of CHROs"). This allowed us to compare and contrast CFO and CHRO succession practices to determine if and where any differences might exist.

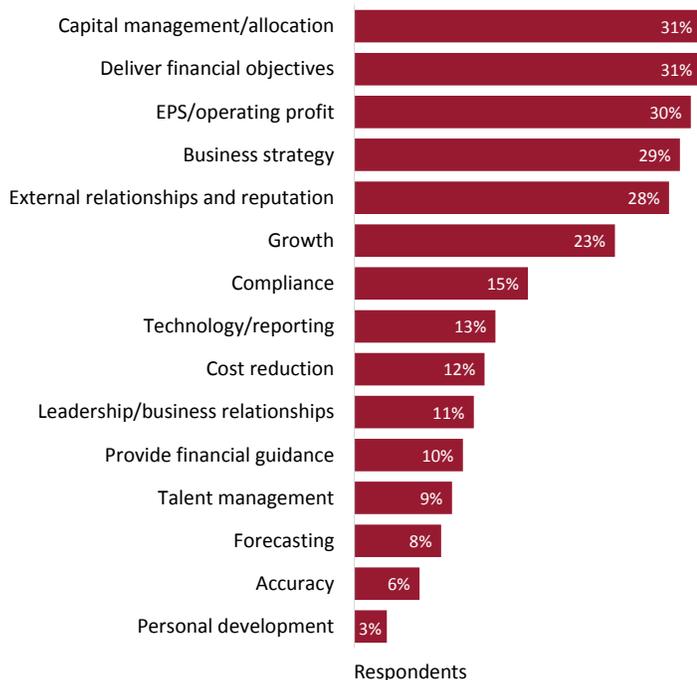
Comparing the CFO and CHRO Roles

Before exploring succession practices, we first asked a few questions about the CFO's role. Every year we ask about the CEO's top 2-3 priorities for the CHRO, and this year we also asked about the CEO's top priorities for the CFO. Not surprisingly, major differences emerged as can be seen in **Figure 1**.

CEOs clearly expect CFOs to deliver on all aspects of the financial management of the firm. We created specific categories such as "Capital management/allocation (31%, e.g., "Effective capital deployment/M&A"), "Deliver financial objectives" (31%, e.g., "Annual financial performance"), "EPS/operating

Figure 1

CEO's Top Priorities for the CFO



CEO's Top Priorities for the CHRO

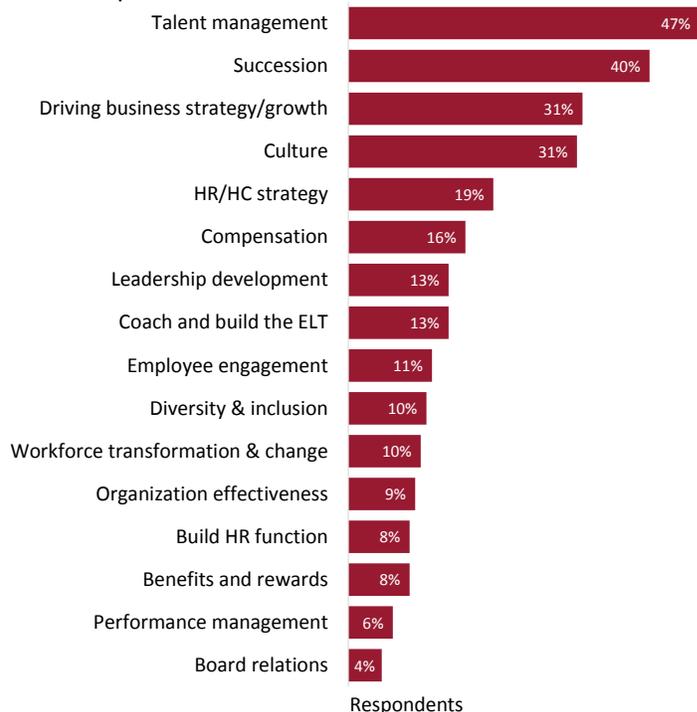
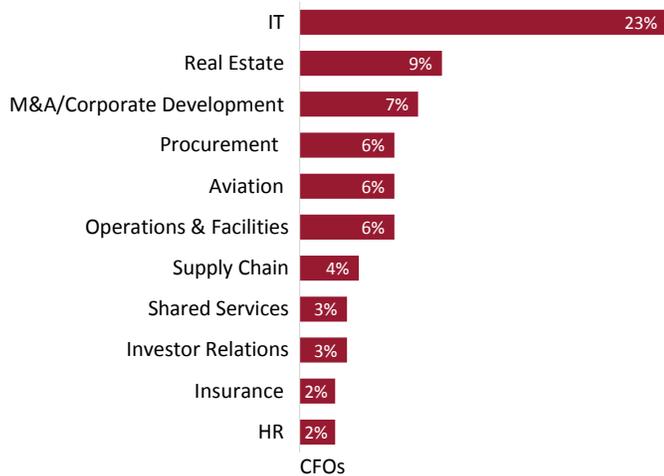
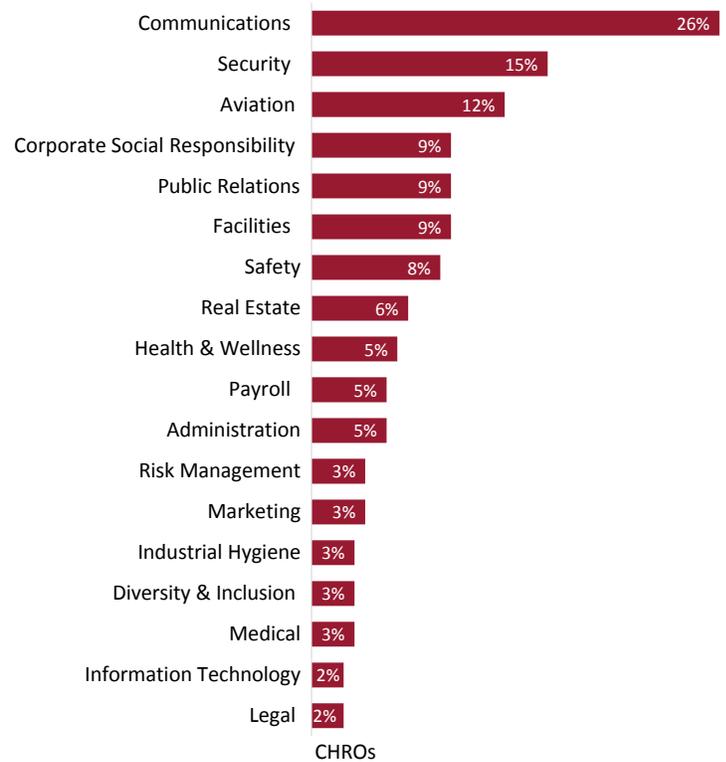


Figure 2

Non-finance Functions Reporting to the CFO



Non-HR Functions Reporting to the CHRO (2016 Data)



profit” (30%, e.g., “Operating EPS performance”), “Business strategy” (29%, e.g., “Business strategy”), “External relationships and reputation” (28%, e.g., “Improve investor relations and reputation”) and “Growth” (23%, e.g., “Long term growth planning”).

Figure 1 does not present exactly comparable results, but it does illustrate that CEOs view the CFO’s role as effectively overseeing the management of the financial capital of the firm, and view the CHRO’s role as effectively overseeing the human capital of the firm.

Second, we asked which functions also report into the CFO, which allowed us to compare the number and types of functions overseen by the CFO to those overseen by the CHRO (based on our 2016 survey). **Figure 2** displays these results.

As can be seen in Figure 2, CFOs are most likely to have IT reporting to them, probably due to the significant cost component of IT systems and IT’s role in recording financial transactions. Only CFOs had M&A/Corporate Development (7%),

Procurement (6%), and Supply Chain (4%) reporting to them, while only CHROs had Security (15%), Corporate Social Responsibility (9%), and Safety (8%) reporting to them. CHROs, on the other hand, most often have Communications reporting to them. In addition, both CFOs and CHROs had Real Estate (9% and 6%, respectively), Facilities (6% and 9%, respectively), and Aviation (6% and 12%, respectively).

“...CEOs view the CFO’s role as effectively overseeing the management of the financial capital of the firm and view the CHRO’s role as effectively overseeing the human capital of the firm.”

Collaboration/Conflict Between CFOs and CHROs

Increasingly senior HR leaders emphasize the need for CHROs and CFOs to work together around a number of issues critical to the health and success of their firms. We asked about the essential areas that require the CFO and CHRO work together. **Figure 3** displays these results.

While not the highest, it is important to note that 8% of the respondents answered “Everything” meaning that the two roles cannot be viewed as completely existing in their own silos. However, given the fact that it comprises a huge cost and directly impacts the firm’s human resources, not surprisingly “Compensation” appeared as the most frequently mentioned area requiring collaboration (17%). For similar reasons “Benefits and rewards” (15%) also appeared high on the list. “Strategic input” also topped the list of areas requiring the two individuals to work together. Finally, “Workforce planning” (11%) appeared high on the list.

Table 1 provides examples of comments and illustrates these areas requiring collaboration.



Figure 3
Essential Areas the CFO and CHRO Must Work Together

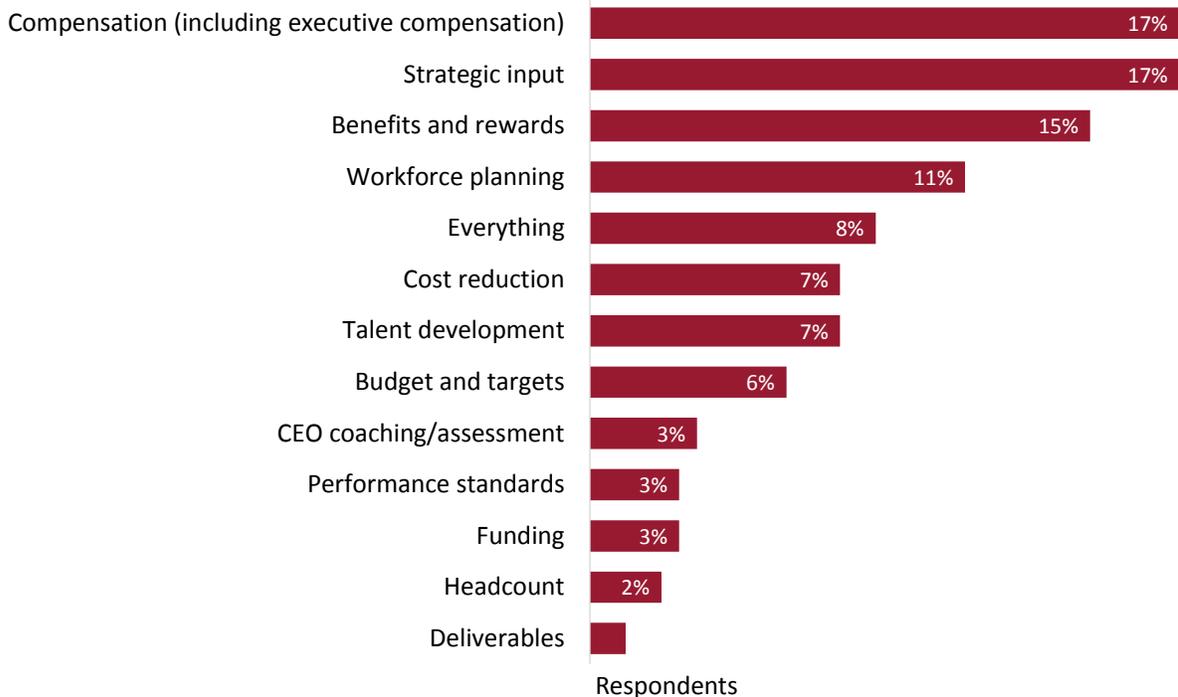


Table 1. Examples of Areas Requiring Collaboration Between the CFO and CHRO

“On all aspects of the workforce and organizational goals.”

“Any area that has a people or relationship implication”

“Management of our healthcare programs/costs, management of our compensation programs, some policy setting (vehicles, T&E, etc.)”

“Designing and communicating High Performing Culture Strategy. Rebuilding the ELT through extensive executive recruiting. Educating People on developing in people, and giving candid feedback”

“Human Capital Spend/Cost Reductions”

“1) Coaching of the CEO, 2) Change leadership across the organization”

“Compensation. My CFO is actually a very good people leader and she and I are aligned on most people related issues.”

“Executive comp target setting; benefits cost and design, broad base comp, culture change, Board governance, cost productivity”

“Many. Strategy planning, resource allocation, incentive strategy, etc.”

“Headcount costs and alignment of business objectives/incentives.”

“Guiding the CEO”

“Many! We work closely together. Driving business performance, workforce cost management, top leader selection.”

“Executive Incentive Compensation Design & Target Setting. Influencing ‘tag teaming’ the CEO on select topics.”

“Many - comp/equity strategy, alignment of corporate organization, calibrating points of view on performance and potential of our senior business leaders, culture/engagement, restructuring evaluation and impact, prioritization of human capital investment opportunities”



These results seem to mirror those regarding areas of disagreement between the CFO and CHRO as shown in **Figure 4**. “None” served as the most frequent answer (32%) indicating that about one-third of CHROs in our survey indicate they are well-aligned with the CFO. “Strategy” (11%), “Working styles (11%), “Priorities” (10%), and “Cost containment” (9%). **Table 2** provides a number of quotes from CHROs. These indicate that when disagreement exists, it often stems from differing priorities, with CFOs focusing on cost reduction or cost containment and CHROs focusing on talent retention, development, and engagement.

Figure 4
Major Area(s) of Disagreement Between the CFO and CHRO

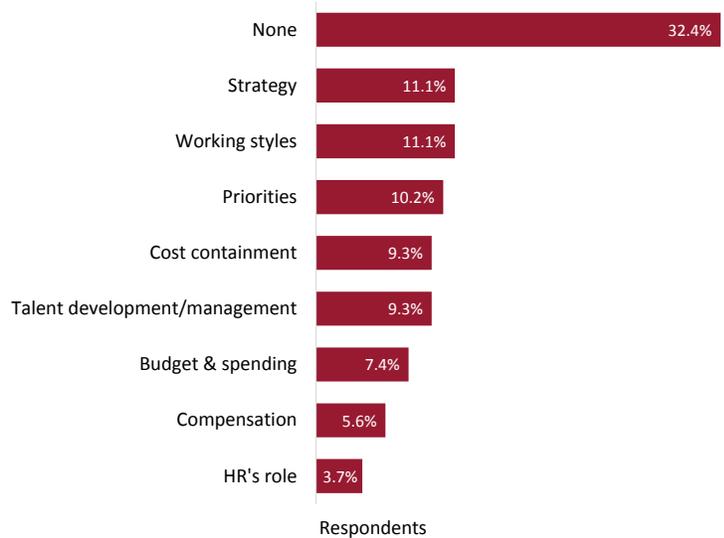


Table 2. Examples of Areas of Disagreement Between the CFO and CHRO

“We have a brand new CFO so hard to tell. With the previous CFO, we actually had few major disagreements. Only areas might be the size of the merit budget and benefit costs which impact talent issues but we usually worked them out with little acrimony. The only time I would get crazy would be edits about hiring freezes that made no sense or stuff coming out of expense reimbursement management without consultation with HR like no pizza engagement recognition parties for our production sites that saved little and caused morale issues. Made me crazy”

“Very aligned, may only differ tactically on resource allocation on a specific issue”

“Luckily I have a fantastic relationship with my CFO -”

“CFO thinks cost first, at expense of other important priorities at times”

“CEO has a people first mindset; CFO thinks cost first.”

“Never the ends, just disagreement at times surrounding the means.”

“Extent to which money invested in culture and change management is a worthwhile investment. CFO doesn’t value the role HR plays in driving shareholder value. He may not say this directly, but his actions demonstrate this is his point of view.”

“Managing financials surrounding workforce.”

“The lack of collaboration between Finance and HR. The Finance team thinks they own everything such as incentive plan design, merit process and decisions and workforce planning. In process of moving these things back to HR.”

“Investment ahead of revenue - spending money on capability development ahead of the business forecast.”

“Expense reduction through brute force rather than organizational effectiveness approach”

“We usually arrive at agreement, just takes time”

“Our CFO is very focused on cost-savings opportunities and I am focused on maintaining our culture and morale during a time of substantial change. These two concepts can often be at odds.”

CFO Succession

Our past surveys compared how CEOs, CFOs, and CHROs came into their roles. For CFOs and CHROs, four options were offered: Promoted directly into the role from within the function, promoted directly into the role from outside the function, hired directly into the role from outside, and hired from the outside with the intent to promote into the role. **Figure 5** shows that the results for CFOs have been consistent over the past three years, with most (53%-58%) being promoted directly from within the finance function and just over one-third (35%-36%) being hired from outside.



Figure 5
How was the CFO Promoted?

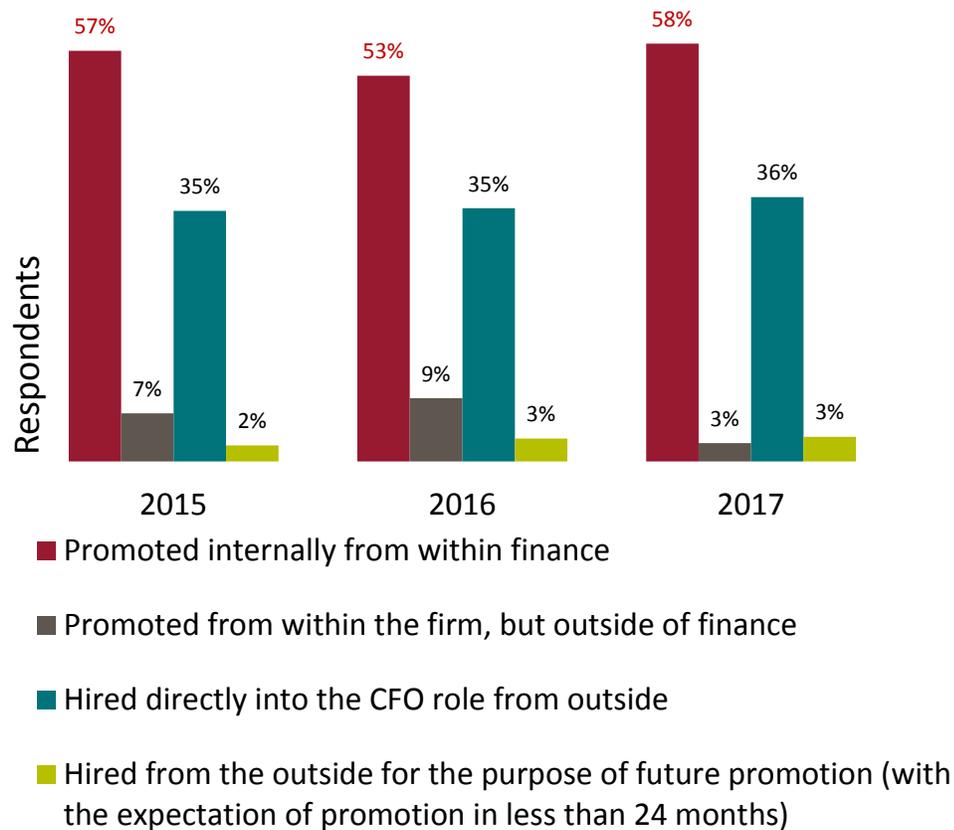


Figure 6 shows how CEOs, CFOs, and CHROs compare based on the 2017 survey data. Consistent with past results, the CFO and CHRO routes to the top serve as mirror opposites. As can be seen 58% of CFOs are promoted internally compared to only 32% of CHROs, whereas 58% of CHROs are hired from outside compared to only 36% of CFOs.

We also asked how the position would likely be filled in the event of the departure of the incumbent and compared the data on the CFO to the 2016 data on a similar question regarding the CHRO. **Figure 7** shows that the CFO position is more “highly likely” to be filled by an internal candidate than the CHRO role (32% vs. 18%) and an overall lower likelihood (44% vs. 52%) of being filled by an outsider.

“Consistent with past results, the CFO and CHRO routes to the top serve as mirror opposites.”

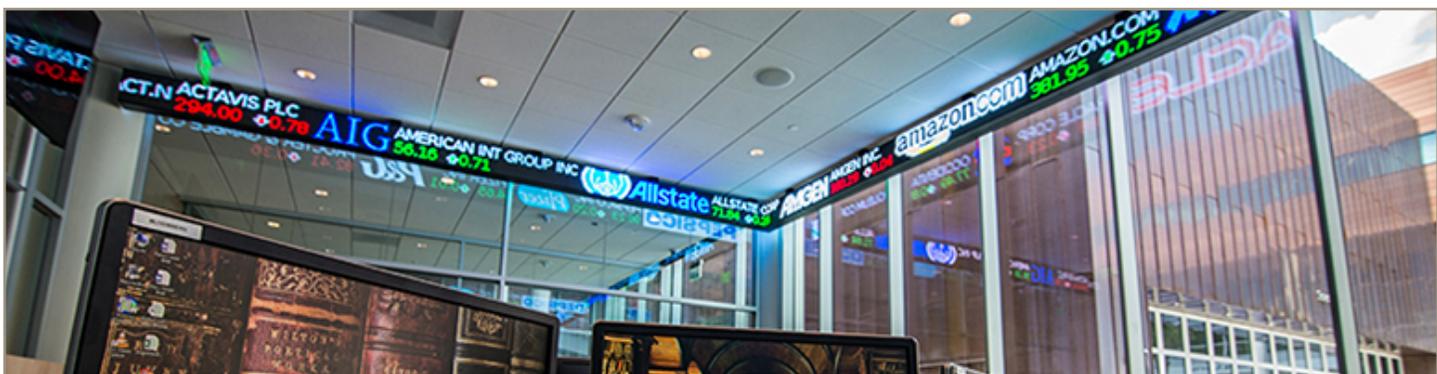


Figure 6
Path to Position

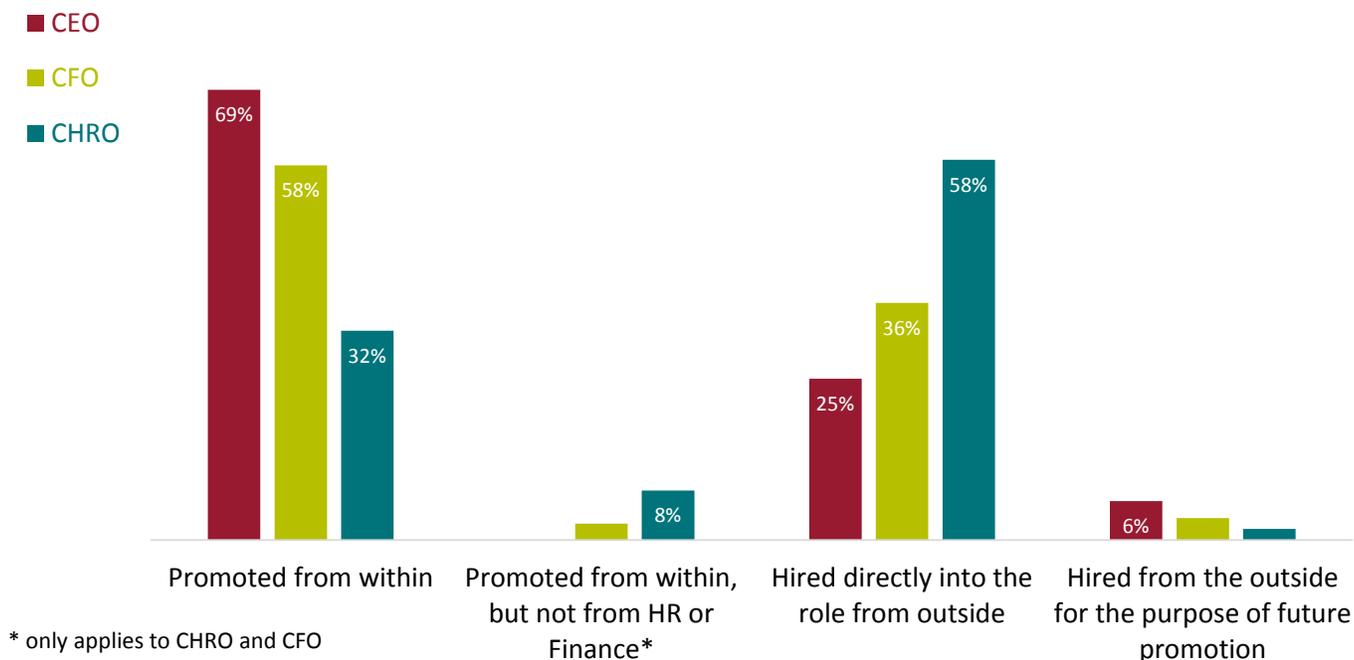
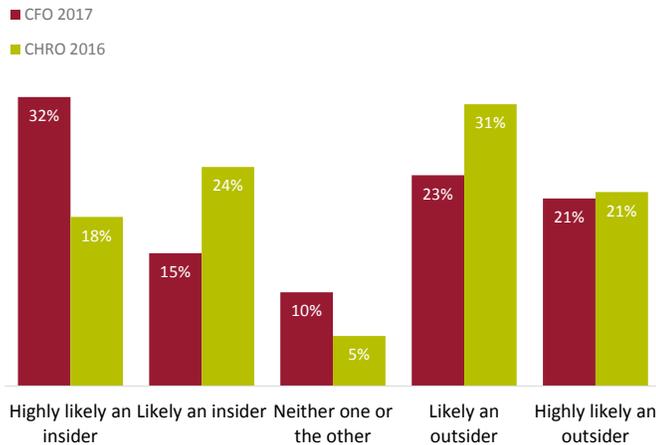


Figure 7
Likelihood the Immediate CFO/CHRO Successor is an Insider



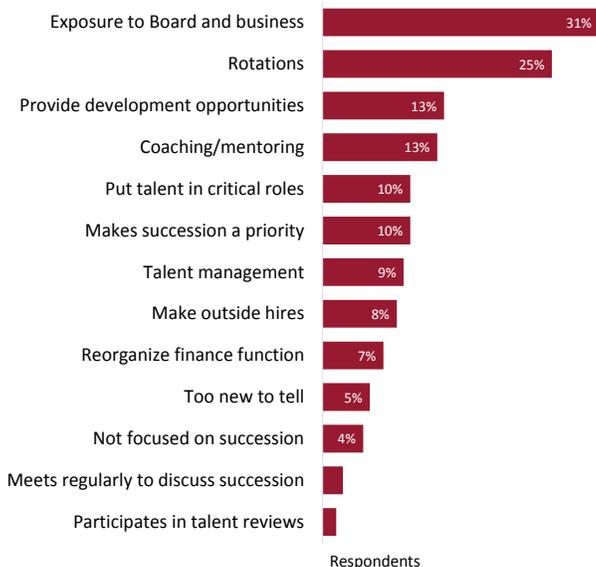
Because of the consistency of these results over time, we sought to explore reasons that might account for the differences between roles. First, we asked about the ways in which the CFO prepared his/her potential successor. These data, compared to a similar question on the 2014 survey regarding CHROs, are displayed in **Figure 8**. These results suggest that (a) the activities themselves (exposure to board/business leaders, rotations, coaching, etc.) do not differ much, but

that (b) it seems that CHROs engage in more of these activities with potential successors than CFOs. Regarding the latter, it is important to note that this may reflect CHRO's more intimate and accurate knowledge regarding what they, versus their peer CFO, are doing in these areas.

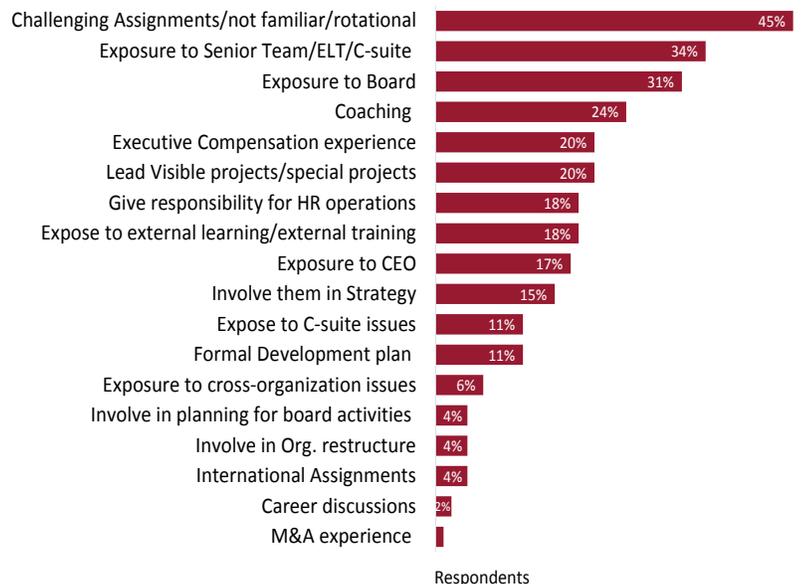
We asked the CHROs why they believed that CFOs are almost twice as likely to be promoted internally than CHROs. A number of explanations have been offered over time, so we viewed this as a chance to hear from a broad swath of CHROs regarding their opinion on the topic. As can be



Figure 8
CFO's Actions to Prepare Successors



CHRO's Actions to Prepare Successors (2014 Data)



seen in **Figure 9**, the most often cited reason was “Insufficient internal CHRO succession,” followed by “Limited relevant knowledge,” “Emphasis on CHRO/CEO relationship fit,” “Externals provide an outside perspective,” and “Limited board and executive experience.” To provide a richer description, we provide a few quotes from the responses in **Table 3**.

To explain how these all fit together, we note that three key competencies serve as the foundation for being selected as CHRO. First, potential successors must demonstrate a strong level of business acumen and/or a business- (as opposed to HR-) focused mentality. Second, because the CHRO role entails significant interaction with the board of directors, CEOs want a CHRO who knows how boards work, and can work within those processes and constraints. Third, because the relationship between the CEO and CHRO differs from other C-suite relationships, CEOs desire a strong level of personal and professional trust with the CHRO; many describe this as a “chemistry” between the two.

If CEOs seek all three of these characteristics, one would be hard pressed to design a career path that ensures that an internal candidate develops and demonstrates them. For instance, business unit HR leaders may possess strong business acumen and a business-focused perspective, and may have the

opportunity to build a relationship with the CEO IF they previously worked for that CEO within a business. However, such candidates do not receive board exposure as they do not have responsibility for executive compensation or talent, areas that work more closely with the board. Leaders of executive compensation and talent gain significant exposure to the board, but come from an HR-focused background and may not have developed the necessary business acumen. In addition, they are not likely to have worked closely with the CEO to build the necessary chemistry.

In other words, one often refers to the “perfect storm” of three negative forces coming together to create a synergistically negative outcome. In this case the perfect storm may refer to three necessary conditions, each having a relatively low probability, needing to come together to form the ideal candidate. For a CEO looking internally, he/she knows (because of specific internal career data as well as any personal experience) it is necessary to be willing to sacrifice at least one of these three characteristics. Hiring from the outside, however, presents a cloudier picture. An outside candidate in a CHRO role may signal to the CEO the individual has both business acumen and an ability to navigate the board (whether true or not). Thus, the only thing left to assess is the chemistry.

Figure 9
Why are CHROs Twice as Likely to be External Hires than the CFO?

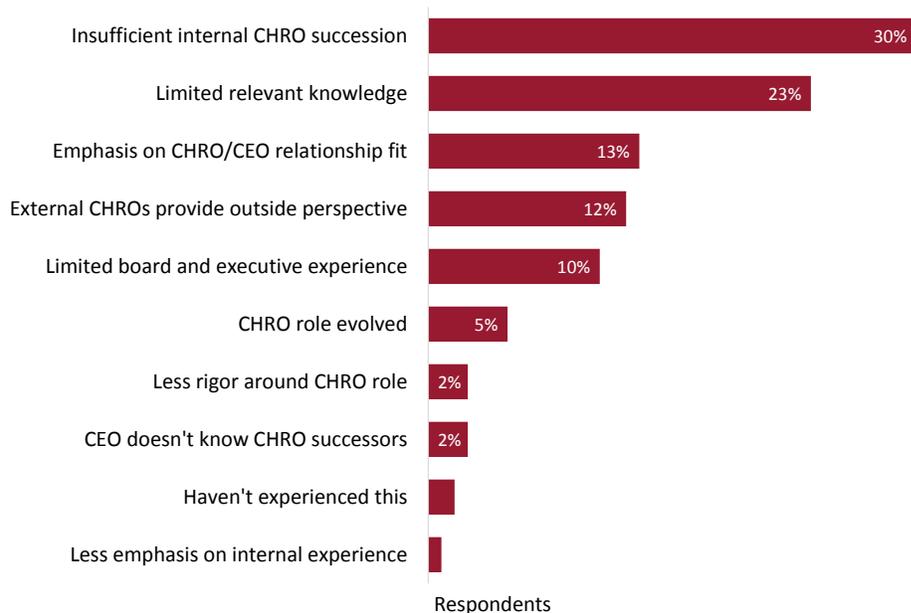


Table 3. Reasons CFOs are Promoted Internally More than CHROs

“Age old question....several reasons probably drive the decision; 1) CEO’s are more inclined to want good “chemistry” with their CHRO which to them translates to trust; 2) Often the CEO has had little exposure to the 2 down HR team; 3) I think of all the C-Suite positions there is far less rigor around assessment and position description for the CHRO position than any other; 4) there is often schizophrenia around the notion that the CEO wants an advisor/consultant as opposed to an engaged operator or vice versa, and they don’t figure out what they have until it’s too late....or it could be none of the above as some just don’t value the role.”

“Many companies haven’t prioritized internal development in HR. When new CEOs want to change strategic direction, they see internal candidates as too tied to the past.”

“Organization and/or prior CHRO did not develop a strong enough internal bench and/or take more of a risk with the talent they had.”

“Higher levels of expectation for the function and a perception that there are stronger candidates outside the company....not unlike what happened some 10+ years ago with the CFO function.”

“The intimate/confidant relationship with the CEO - often the CEO wants their own. Hard to get Board exposure and Enterprise perspective from number two roles in HR.”

“With regard to CHROs, CEOs prefer the wisdom and judgment of “managing the board” over the experience of growing up within a company/culture. This is less of a requirement for CFOs.”

“Change in priorities in the organization that the CHRO fails to grasp, dissatisfaction with the direction of HR, breakdown in the relationship between the CEO and CHRO, and/or lack of effective development (or visibility of the development) for internal successors.”

“Lack of business acumen among most HR people. Lack of focus on what keeps the CEO awake at night. HR people get caught up in engagement surveys and HR fads instead of how to successfully grow the biz short-term and long-term.”

“Lack of good succession planning. And, allowing a different standard for our own function versus what we hold other functions accountable for (i.e., good succession planning).”

“Not a good succession path within HR, more subject matter experts at direct report levels.”

“The need for trust and ability to receive coaching from the CHRO is critical, so when there is a change in this role, it may be hard for someone to trust the few qualified internals vs. looking external for people they personally fit with. This may not be as important with the CFO.”

“HR talent pipeline unable to sufficiently develop talent; CHRO candidates need greater breadth of experience”

“Clear metrics for CFO experiences and success/failure; HR candidates are too narrow in career experiences”

“CFO has a well-defined rotational path through the function (treasurer, controller, IR, etc.) that you must complete to become a CFO. You can enter the HR role from multiple directions.”

“CEO has a difficult time seeing Business Unit HR leaders as their CHRO, unless they were the BU President that the BU lead worked for. Exec Comp and Board work is such an important part of the job. BU HR leaders do not get the experience here. Compensation leaders, don’t necessarily get the BU HR leadership experience. The CHRO role is a unique blend of technical knowledge and the coaching and advising on culture, performance and organizational dynamics.”

Meet the Authors



Patrick M. Wright is the Thomas C. Vandiver Bicentennial Chair and Professor at the Darla Moore School of Business at the University of South Carolina. He is an expert in strategic human resource management and has been named one of HR Magazine’s “Most Influential Thought Leaders” for the past 6 years (2011-2016). He joined the Moore School in 2012 and is the founder and faculty director of the **Center for Executive Succession**. His research focuses on how firms use people as a source of competitive advantage, the changing nature of the chief HR officer role, and CEO succession processes.



Anthony J. Nyberg is a Professor of HR and a Moore Research Fellow who examines how organizations compete through people, specifically the strategic role of pay in the attraction, emergence, retention, and motivation of human capital resources. He is also the Academic Director of the Masters of Human Resource Program, serves as Research Director for the **Center for Executive Succession**, and has received numerous awards for his research including AOM’s 2017 HR Division Scholarly Achievement Award. Prior to earning his PhD, he spent ten years as the managing partner in a financial services firm.



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The Darla Moore School of Business building has generated significant buzz since it opened its doors in August 2014, both for its striking appearance and for the ways it promises to transform business education. Drawing on extensive input from students, faculty, staff and the business community about how space can be configured to optimize business education, the \$106.5-million building is the university's most ambitious construction project to date.

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

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