THE GOLDEN TRIANGLE

EQUILATERAL OR ISOSCELES?
The Golden Triangle - is HR repositioning itself and what’s the real story behind the relationship between the CEO, CFO and HR Director?

In our work as a leading Executive Search business, Norman Broadbent’s recent interactions with CEOs, CFOs and HRDs have highlighted the consistent and continuous theme of collaboration across the Board. Of particular note is how well the senior team makes the right connections across the business, promotes opportunity to rethink strategic options, allocates investment and accelerates implementation. Success is partly about team dynamics. It is also about a change in mindset, in particular how the CEO, CFO and HRD now view their leadership contribution both separately and together.

“The CEO should create a triumvirate at the top of the corporation that includes both the CFO and the CHRO. Forming such a team is the single best way to link financial numbers with the people who produce them.” Ram Charan | World-renowned business advisor, author and speaker

Norman Broadbent’s HR Practice, working alongside many senior HRDs is also keen to explore what progressive organisations are now doing to achieve better collaboration, how much the HR function is evolving and if there is a positive shift in the true connectivity between Finance and HR.

This paper sets out to make commentary on all of these areas referencing surveys, recent research and current organisational trends.

In 2009 the Centre for Performance-Led HR at Lancaster University introduced the ‘Golden Triangle’, the informal network of relationships and conversations within the top team, typically between the CEO, CFO and HR Director. In the Golden Triangle, mutual trust and respect build an effective collaboration to create a forum for the kind of informal strategic debate that makes connections and gains new insights into the business.

“In reality, the CFO and the Head of HR are the only people, along with the CEO, who have an overview the whole organisation.” Simon Henry | CFO, of Royal Dutch Shell

Seen as an opportunity for HR to optimise its business contribution, the research indicated a better future for a function that has often been on the receiving end of criticism about its lack of strategic impact. The analysis however found it difficult to pinpoint the specific dynamics that produce this kind of executive collaboration, suggesting that the emergence of the Golden Triangle was “unpredictable and random”. Unsurprisingly, given the lack of clear conclusions, the research did not gain the full attention it deserved.

More recently there are signs that the Golden Triangle is re-emerging as a key dynamic of organisational success and specifically one that will build and strengthen a partnership between HR and Finance.
BOARD DYNAMICS AND EXPECTATIONS AND PERCEPTIONS OF HR

In a recent round of survey research of top management perceptions of HR, the function is viewed fairly positively by CEOs who value the productive relationships they have when the Golden Triangle is working well. Both CFO and HRD have a remit, by function of their role, to challenge and shape an organisation. If that relationship is unbalanced or non-existent then the whole organisation displays the same lack of equilibrium eg. focusing on the numbers at the expense of creating a sustainable culture. If the CEO understands this he/she will think proactively about getting the right Golden Triangle fit rather than leaving it to chance.

The majority of CEOs see the HR Director as a “valued contributor to the business” who operates as a “trusted advisor”. There is also a sense from the research that some CEOs feel their HR Directors fall short of really understanding the challenges facing the business.

“The CEO needs to recognise the strategic importance of leadership and focus on this, using the CPO and CFO as his right and left hands” CPO FTSE 250 digital retailer

Significantly, CFOs tend to be more critical than CEOs of their HR peers. Although again the trend is broadly positive with the majority of CFOs valuing their relationship with their HRDs, around two-thirds report that their HRDs don’t understand the business well enough.

There are a number of tensions that have held back collaboration within the Golden Triangle. Historically the CFO has looked at the workforce as a cost, and a cost to be reduced to improve business profitability in the short-term. In contrast the HR Director has seen people as an asset requiring investment in the future of the business. In talking to HR Directors where the Golden Triangle is working well this no longer seems to be the case.

“There need to be no egos, no hierarchies, no politics but the CEO needs to ensure availability”
HRD Insurance

Additional tension may also emerge from different mind-sets. The CFO prefers certainty, taking reassurance from the precision of hard measurement, and has been unimpressed by the HR Director’s discussions about the intangibles of people and the lack of objective data to justify their business proposals. Conversely, the HR Director more comfortable with ambiguity, has reason to ask “just how hard are these numbers?” and how predictive are they of future business success?

Throw into this mix the usual personality clashes and professional rivalries within a senior management team, and it is not surprising that the relationship between the HRD and CFO has not always been straightforward.

“If you have a visionary CEO, being close from the finance and people perspective is key in terms of planning for capability and new revenue – particularly in the digital age.”
HRD FTSE 250 Industrial
The other key factor within the Golden Triangle is, of course, the CEO and the mindset which they bring to the strategic debate. Each CEO has a distinctive agenda shaped by their own past, their functional background and experiences of success and failure; the present and how they assess the current opportunities and risks facing the business, the external market forces in play and the business strategy; and the future, and their own motivations and aspirations for the long-term business.

“The three need to see the requirement to make the triangle work. Getting together regularly is key. We work hard at it and the CFO and I try to make it happen given busy travel schedules.”
HRD FTSE 250 Industrial

A CEO concerned about innovation who wants to build a legacy of pioneering product development is a different CEO from the trouble-shooting leader under fire from investors concerned about falling market share. Different CEOs will play a different role within the Golden Triangle. The savvy HR Director who is well integrated into the business and plays a key role in strategy development recognises how to optimise their influence on the CEO to ensure a balanced strategic debate that addresses the short, medium and long-term.

“I have come to the conclusion that upgrades to the HR operating model will not come through ‘defined roles’ but will rather come from improved relationships.” Dave Ulrich | HR management guru

Despite the potential for conflict we do know that when the CEO, CFO and HR Director are in alignment, drawing on each other’s specific contribution around a shared agenda, the Golden Triangle is associated with superior levels of business performance and shareholder return.

WHEN IT WORKS AND COLLABORATION

When the Golden Triangle is working effectively, what are the potential collaborations between HR and Finance?

At one level it is obvious that HR needs to operate as a partner with other organisational functions, not just Finance and, for many HR functions in organisations, this approach is fundamental to how HR operates. Alternatively, for other organisations, HR itself is structured around functional silos, making it difficult to collaborate within the function, never mind with other business areas.

Strengthening HR’s relationship with Finance can only help join the dots across key activities to make the links between business decision making and priorities, people processes and practices and organisational effectiveness. Our initial research indicates the following areas as benefiting from stronger partnerships:

- Workforce planning, performance, remuneration and RemCo

This is not new. When human capital is an average of 70% of the operating expenses of most companies, mastery of the basics is fundamental. In addition, most organisations ensure that key strategic decisions - new business ventures, expansion, restructuring to move out of specific activities - bring together HR and Finance to work through the options and the associated costs and risks. What is becoming more evident is the move from the tactical processes of workforce planning, headcount management and budgeting to position these activities within a strategic agenda. This is, for example, workforce planning not simply as a projection from the past, but HR and Finance working through different future scenarios and the pros and cons of different resourcing and reward philosophies. Being innovative and brave will be a requirement.

Alignment of views between the CFO and HR Director around the most challenging of reward matters is critical. Arguably, in the world of increased governance and public scrutiny the two functions have had to become more united in how they manage the mechanics of all remuneration matters, maximise the relationship with the Remuneration Committee and minimise risk.

- The use of workforce analytics

Here HR and Finance come together to gain new insights into the causes of current performance, as well as potentially establish indicators of future performance. Although the claims of Big Data and predictive analytics as a game-changer for HR may have been over-blown, there is a growing awareness of the benefits of a more systematic approach to data capture and analysis. This is now enabling HR to track key trends, explore cause and effect relationships, and generate metrics indicative of future outcomes. Confidence in dealing with technology and data will be key requirements for the HR Director going forward.

Typical questions that HR and Finance ask to validate their respective expertise and contribution are:

- Given the cost and scarcity of talent, are our resourcing processes working effectively? Which recruitment and selection methods seem more predictive of future effectiveness and business impact?
- Are our workforce planning processes robust enough to identify future mission critical skills and are the resourcing strategies aligned with the realities for the specific skill areas?
- If employee engagement is a key element of workforce productivity and innovation, which specific factors will improve engagement levels and outcomes of organisational importance that, in turn, underpin gains in business performance?
- What are the business consequences of employee turnover? What factors influence retention levels and how is this affecting operating effectiveness? Can we identify those individuals in critical roles who represent a specific flight risk?
- If we invest in a fast track programme what business impact can be expected? This is to shift from the reliance on suspect ROI estimates to be more systematic in, for example, identifying improvements in leadership bench strength and the longer-term impact on retention and flexibility of future resourcing options.
• Human Capital Management and integrated reporting

The problems with conventional financial reporting to provide a full insight into the current health and future prospects of an organisation for investors are well known; “the standard annual report no longer looks up to scratch”. If Human Capital is a driver of sustained organisational success the argument is that organisations should be more systematic in quantifying the value of people to future performance. A move to a more holistic type of reporting based on broader metrics, typically incorporating measures of governance, culture, leadership, the profile and capability of the workforce, employee brand and engagement would lead to greater openness, transparency and accountability around human capital.

“When you look at what companies are doing in their integrated reports it is clear there is no thing magical going on; it is just a serious attempt to do a better job of conveying strategic insights about human capital.” Dave Creelman | Human Capital consultant

There is a trend for investors to ask more questions now about culture, behaviours and diversity and how executives will build businesses that will survive beyond them. This is the opportunity for HRD’s to demonstrate where they can add value and work seamlessly with the CEO and CFO.

We think it unlikely there ever will be full agreement on a consistent standardised set of metrics to provide objective and comparable data. What however we are seeing is HR and Finance collaborating to compile and produce ‘smarter’ reports or prospectuses that make key links between a range of factors to provide a more coherent and comprehensive picture of organisational performance.

“A revolution in corporate reporting is under way as organisations realise business success is about more than just an impressive balance sheet. HR has a vital role to play in integrated reporting, but failure to embrace this opportunity could sideline the function.”
Katie Jacobs | HR journalist and editor
HR AND ITS FUTURE OPTIONS

The challenges of the Golden Triangle and the opportunities for greater collaboration between HR and Finance should be positioned within the context of the recurring debate about the HR profession and its future. Here three positions have been staked out:

The **pessimists** believe that HR has now become an organisational basket case, unloved by employees who view it with suspicion, and disliked by many in the Boardroom who still question its contribution. For the pessimists, the future for HR is essentially one of break up, in which its different activities get redirected into other functions - Finance picks up the numbers, Legal picks up compliance, and so on - and other elements are outsourced. Here the Golden Triangle disappears.

The **optimists** believe that HR is on the cusp of a major transformation and that with one more push HR will move into a new operating model to finally make the kind of contribution it has promised. The ambition is that HR will reinvent itself through a combination of a post Ulrich operating model and the acquisition of new capabilities. In this scenario, HR becomes the key player in the Golden Triangle, utilising its expertise and insights into the people factors to shape the strategic agenda.

It is the extreme positions of the protagonists that feature most prominently in professional debate about HR’s future. Less vocal are the **pragmatists** who, on one hand, are sceptical of the ‘hell in a hand cart’ perspective, and on the other, doubt there is an ideal HR operating model to provide a blueprint for HR’s future. The pragmatists do however recognise that the Golden Triangle provides an opportunity for HR to optimise its contribution. Exploiting this opportunity will require: credibility at senior levels based on getting the basics right; savvy to navigate the competing agendas within the senior team; a shift in capability to be smarter in analytics and commercial thinking; and character to operate with integrity and courage.

In assessing your own business leadership, you may wish to ask yourself the following:

- What is shaping the evolution of the Golden Triangle?
- Is the CFO an Executive Director and the HR Director not? If this is the case what are the impacts?
- How are the expectations and perceptions of the CEO and CFO towards HR Directors changing?
- How well prepared are HR Directors for their roles as part of an Executive, particularly in respect of interactions with Executive and Non-Executive alike.
- How is the Golden Triangle helping organisations develop their strategic capability, make better investment decisions and improve speed of implementation?
- Which factors make it more or less likely that the triumvirate of the CEO, HR Director and CFO will collaborate productively?
- Which specific challenges need to be managed to make this partnership work?
Norman Broadbent believes that HR will continue to evolve in a number of ways reflecting different strategic ambitions and levels of organisational maturity. From our recent discussions with clients it is clear that it is unlikely that any one operating model can be applied across very different organisations. However, we do believe that proactive HR functions need to continue to find ways to collaborate with their counterparts in Finance. For this to work and sustain, it will be guided by the Golden Triangle in which the CEO, HR Director and CFO interact with a shared appreciation of each other’s contribution, and a willingness to make key strategic connections.

What HR Directors need to be aware of in a rapidly changing, data driven and better connected world is that another key player in organisational performance will be the CIO. We predict that before long a new model will emerge where absolute collaboration between these four roles will bring even greater returns for the organisation turning the Golden Triangle into a Diamond.

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ABOUT THE AUTHORS

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Janet spent 20 years in HR working across a number of industry sectors before joining Norman Broadbent in 2007. Following her early career with J Sainsbury Plc, Janet joined a global supply chain business and during her 10 years there enjoyed a variety of roles in talent development before being appointed as Divisional HR Director and then International HR Director. Moving to Hitachi Data Systems, Janet headed the EMEA HR function and also performed a global role working with the Executive team in Silicon Valley, California before joining a US headquartered Biotech business.

Janet’s search capability and track record extends across all elements of the function – HR Directors, Senior Business Partners, Talent & OD, Performance, Reward, HR Operations and D & I.

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Margaret joined Norman Broadbent in 2008 and plays a central role within our HR Practice. With nearly 20 years corporate HR experience she brings considerable expertise and added-value to clients across all levels of seniority and sectors. Margaret’s search expertise covers all sectors with a real passion for retail and service businesses, leisure and hospitality and financial services with particular focus on HR and Commercial functions.

After a degree in Russian and French followed by a number of years in teaching, Margaret moved into the next stage of her career working largely in the area of talent management, leadership development and resourcing. She left corporate life to move into consulting which enabled her to work with a broad range of organisations in the area of talent management, HR capability and creating and developing effective commercial functions.

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Attracting, developing and retaining the very best talent are constant challenges for any CEO. With this in mind, the business critical role of executive level HR professionals is more important than ever. Today’s HR leaders have to combine strategic insight with business acumen and link these to the key levers of talent, succession and reward.

At Norman Broadbent our experienced and high performing HR team is regarded as trusted advisor to boards, senior leaders and HR professionals alike. With a wealth of collective experience, we provide an exceptional level of insight, advice and counsel. Our team combines functional expertise and strong search capability enabling a highly consultative yet time efficient turnaround of searches. With a team of such strength and depth it is not surprising that their opinions are valued and sought out.

Working with FTSE, privately owned and not-for-profit clients, we always remember that we are our client’s ambassadors and hence ensure candidates are treated with the highest levels of service, discretion and respect at all times.

Working on HR searches across all sectors our areas of expertise include:

- HR Directors in leadership and executive team roles
- Talent & Organisational Development Directors
- Reward Directors
- Service Delivery Directors
- Talent Acquisition Directors
The Norman Broadbent Group is an established and trusted corporate advisor.

Our clients – be they long-standing corporations or high-growth innovators – call on our expertise in Board and Executive Search, Interim Management, Solutions and Leadership Consulting to help them anticipate and resolve their human capital challenges in innovative, cost effective and time efficient ways.

Established in 1979, we have a strong track record of success across a wide range of industry sectors and functions. Key to our longevity is an unrelenting focus on delivery, excellence of service and innovation as well as our strong culture, values and partnership approach.

We are proud that over the years, Norman Broadbent Group has grown and developed a constellation of complementary service offerings. This variety of offerings enables us to work collaboratively with clients designing the most flexible solutions to help meet their business critical, senior-level talent needs and challenges. It also enables clients to strategically partner with us building deep, enterprise-wide relationships.

Our joined up approach guarantees exceptional results and enables us to eschew the ‘one size fits all’ approach often employed in our industry. At Norman Broadbent we always seek to understand a client’s needs and challenges first before crafting and successfully delivering the optimum solution.

Since our founding nearly 40 years ago we have listened to our clients and developed a more integrated suite of offerings and flexible way of partnering. Today, no other UK firm offers the same breadth of services and flexibility. It’s for this reason that some of the world’s most complex and demanding companies choose to work with us again and again.