



## THE STRATEGIC AGENDA FOR HUMAN RESOURCES LEADERS IN TECHNOLOGY COMPANIES

During the past 10 to 15 years, CEOs and boards have increasingly looked to their human resources leaders to adopt a more strategic, results-oriented approach to the function. And, indeed, an increasing number of HR leaders have acquired the business knowledge and developed the skill-sets to position themselves as true business partners.

Spencer Stuart's Technology, Communications & Media Practice set out to learn more about the strategic role human resources is playing in technology companies, especially in the dynamic and uncertain environment in which we currently find ourselves. Consultants conducted interviews with nearly 20 human resources leaders of technology companies, primarily in software and services, with revenues ranging from several hundred million dollars to more than \$6 billion.

In practice, the influence human resources leaders wield on strategic issues varies widely, depending on the maturity of the organization, the capabilities and business knowledge of the human resources leader and the specific issues facing the company. Increasingly, however, the most effective human resources leaders are serving as key advisers to the CEO, consulting on critical business issues such as mergers and acquisitions and organizational readiness for major business transitions and, of course, preparing the organization for the future through succession planning and leadership development initiatives.

As Becky Ranninger, executive vice president of human resources for Symantec Corporation, describes, "HR today is an amalgam of two wildly different roles: The first, which has really come to the forefront over the last decade, is strategic; the second is the personnel functional role, which is the day-to-day business of human resources that you have to 'get right.'" Those day-to-day responsibilities also can be highly strategic, argue HR leaders. "A lot of people are quick to dismiss the strategic importance of some of the more mundane elements of HR, including recruiting. But when I look at some of the people we have brought on board and their role in changing the culture of the organization, it can make a huge strategic difference," one HR executive said.

In addition, HR often takes a leading role in cultural transformation and change management, working with senior business leaders to assess the organization's ability to execute the business strategy and new initiatives. "The lead HR person, at least in my experience, plays a role not in setting the strategy, per se, but in orchestrating the strategy and ensuring that the process, the inputs and the issues that are discussed are the right ones to assess organizational capability and readiness," said John P. Brennan, senior vice president of human resources for Advent Software. "HR is in a unique position to help the leadership of the organization balance all those factors that are going to affect the strategy."

The HR leader also helps the management team examine the implications of critical decisions, said Debra Canner, chief human resources officer for Akamai Technologies. "For example, if the business wants to add three new investment projects, what are the implications in terms of how people spend their time? What systems or processes are needed to support the investments? If we are investing in a new project, a new technology or new direction, are we able to scale the organization appropriately to support it?" As the human resources function becomes analytics- and metrics-driven, HR leaders will be able to provide more information to frame key business decisions.

It has become standard practice at many companies for human resources to be involved in mergers and acquisitions, not just post-merger integration planning but to assess the human capital elements of the deal. "We made the biggest acquisition that we've made in 10 years last year and I led the due diligence for HR personally because we really needed to get this one right to assure the board that we could acquire

companies and successfully integrate them," said Clark D. Handy, senior vice president of human resources for Convergys Corporation. "My role from a strategy standpoint is identifying whether an acquisition target represents a good cultural fit. An HR leader has to be willing to step up and say, 'This is not going to be a good move on the basis of cultural fit,' which is very challenging when there is a lot of momentum behind a deal."

Human resources leaders today have significantly more interaction with the board of directors than in the past, particularly in the areas of the succession planning and compensation, but also on a range of business and organizational issues. "It never seems to be an agenda item, but inevitably during board meetings the conversation leads to a discussion of how management is going to execute a certain strategic initiative, which evolves into a discussion about people, talent levels and accountability. I find myself contributing at board meetings in those more spur-of-the-moment conversations," said Peter E. Hilliard, vice president of human resources for Harmonic.

What's on the strategic agenda today for the top human resources leaders of technology companies?

### **Preparing for growth**

The past couple of years have been challenging ones for many technology companies, some of which responded to the slowdown in economic activity through cost-cutting measures such as reductions in force, salary freezes or reductions, and changes in benefit plans. As the economy improves, HR leaders are watching trends in compensation and benefits to understand the competitive landscape for top talent and the implications for employee retention and morale.

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Jane Altobelli, executive vice president of human resources for Information Resources, summed up the challenge this way: “We know at some point that the economy will turn around, and when it does people will start looking. How do we retain our key talent when the market starts opening up again? How we’ve managed our people during the downturn will be very important. They’re going to look back and think about how they were treated and, hopefully, they’ll feel that they were treated well, despite the tough decisions we had to make early last year. To that end, we will be rolling out a new toolkit for leaders called RetentionNow, focused on retaining our top talent. The toolkit includes information on underlying drivers of why people leave organizations, strategies and ideas for individual retention plans.”

Another priority for senior HR leaders is ensuring the business has the talent it needs for growth. While the downturn enabled the strategic turnover of individuals who had topped out in the organization or whose skill-set was no longer essential, it is also providing businesses with the opportunity to recruit very talented leaders who may have been unaffordable in a better economic environment.

“The work that we do now to make sure that we’re attracting and retaining the right talent becomes even more critical as we look to the future, and I think companies that are not taking that into account now will pay for it later,” said Sid Ferrales, senior vice president of human resources for RealNetworks. Holly Kortright,

senior vice president of human resources of Deltek, agreed, saying: “The top priorities coming out of this economic downturn are how do we, from a human capital standpoint, support growth? Companies have been forced to focus on the short term, looking at the future in three- or six-month increments. But there is a role for HR executives to get the organization to begin thinking about future talent needs.”

In an environment in which resources still are constrained, another important consideration for HR leaders is establishing the methodologies to identify the top players in the organization and differentiating the financial incentives as well as the training and development opportunities offered to these top people. For example, as organizations consider how to allocate limited budgets for salary increases and bonuses, increasingly HR leaders are making the case for allocating these rewards where they will have the most impact, rather than simply awarding small increases across the board. “We can’t afford to spend the same amount of money on everyone. We can’t afford to take all of our compensation dollars or development dollars and spread it like peanut butter. We have to decide where we’re going to prioritize putting those dollars. What we’ve done is prioritized our talent strategy by looking at mission-critical roles: given our business strategy, the jobs that are going to have the most impact on driving our future revenue growth or reducing cost. Other areas of differentiation are performance and potential,” said Bridie A. Fanning, formerly executive vice president of

human resources for Fiserv and now a principal at AlignOrg Solutions.

### **Succession planning and talent management**

Succession planning today has more visibility with board directors, as, increasingly, investors are looking for assurances that companies have a comprehensive, objective and ongoing succession planning process for the CEO, CFO and other critical senior executive roles.

Despite widespread agreement about the importance of succession planning, it is an area in which many boards struggle. Human resources executives help the board navigate potential obstacles to CEO succession planning by helping to define the succession process and keeping succession planning discussions high on the board's agenda. The most sophisticated organizations have well-established succession planning and talent development processes encompassing all high-level executives and focusing on preparing leaders at all levels for bigger and more complex leadership roles.

Particularly in the early days of the business, many technology companies take an ad hoc approach to succession planning. As they grow and mature, these companies institute more formal processes for identifying talent and giving talented executives developmental assignments. "During my first year at SRA, we implemented a basic succession planning process where we identified the top talent, set up an org chart and looked at potential successors for key roles. Because of our geographic growth and acquisitions, we've reached a scale where we need to step up to the next level of succession planning and, more importantly, succession readiness.

Now, we're starting a new planning process incorporating leadership competencies, measuring people against those competencies and implementing leadership development plans. What's important to the success of this effort is making sure the plans are used as key openings occur. We have had great success to date and the momentum has been positive," said SRA Senior Vice President of Human Resources Mary E. Good.

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Roberto Llamas, chief human resources officer for Nielsen, believes there is another benefit to a robust succession planning process: it improves the performance of the organization. "We ought to be in a hurry to do succession planning, not just for business continuity, but because an organization that is continually developing successors drives tremendous organizational productivity and performance," he said.

Human resources also has a critical role in helping the organization define and plan for future workforce requirements. As the business expands geographically or into new strategic areas, the HR leader is in a unique position to help frame the strategy from a human capital standpoint, including whether the strategy is achievable and how to attract, train and motivate employees to execute the strategy.

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“I am spending a lot more time with our senior leaders discussing the skill-sets we are going to need going forward based on our evolving business priorities and challenges. Where will we need talent in terms of geography? When are we going to need them? What competencies will they need to have?” said Paul Rostron, executive vice president of human resources for Sabre Holdings Corporation.

### **Optimizing the global workforce**

More and more, the management team is looking to HR leaders to bring powerful value propositions to the business, and that includes helping the company optimize the workforce internationally. For Ranninger, this means managing the workforce as a corporate asset, much as the CFO manages the corporate financial assets, with short- and long-term forecasts and a detailed understanding of the financial and human implications of different decisions. “The HR function must provide specialized, focused and really granular management of the worldwide workforce. For example, you can have three people in Culver City do a specific task, whereas you could have it done for less by 15 people in India. How you ultimately decide to do it depends on a whole range of factors, including cost, timing, local laws and many others. We are no longer tied to geographic location or the way we do a piece of work. We need to look at what is the way of doing that work that is ultimately most beneficial to shareholders.”

To make the right decisions, HR leaders have to help the organization sort through the range of important considerations, including what roles and activities can be off-shored, what should

remain in-house, and the trade-offs between having an international organization inside the company. “Optimizing a workforce internationally is just not simply looking for the low-cost labor and shifting routine operations around the world. HR leaders need to understand that and be able to manage that,” said one global HR leader.

Globalization will continue to place new demands on the HR function, requiring leaders to build processes and systems able to support growth and leverage the workforce effectively. HR leaders also say they are addressing issues such as how to structure international assignments, how to implement performance-based compensation models in geographies where there is traditionally resistance, and how to groom managers outside the U.S. to lead international teams.

### **New compensation models**

Few governance issues have received as much attention in the press as executive compensation. As a result, boards are more sensitive to possible shareholder reaction when they develop compensation programs. Human resources executives have a key strategic role in managing compensation at all levels of the organization. Not only is compensation — in the form of payroll, benefits, incentive programs and pensions — one of the largest expenses for most companies, it also is one of the most effective levers in linking employee behaviors to business strategy and objectives. In the current environment, especially, more boards and CEOs are looking to their HR executives to reexamine and, in many cases, overhaul compensation practices to achieve a better balance between the organization’s short-term,

top-line goals and its broader and longer-term business objectives.

In practice, the HR leaders we spoke with said their organizations have eliminated many of the perquisites previously paid to top executives and focused on developing pay-for-performance models at all levels of the organization. At the same time, companies have had to review and, in some cases, overhaul compensation models that relied heavily on stock options, which are under water at many companies.

One of the challenges for HR in establishing compensation programs, said Brennan, is developing a compensation structure that clearly communicates the desired behaviors. “The best thing we can do in terms of compensation is to make sure the organization is successful, and the investors recognize that,” he said. “We keep our comp structures pretty basic. It’s important that people understand them. It’s important that people know on a quarterly basis exactly what the connection is between corporate performance, individual performance, and what they’re going to get in their pocketbook.”

### DEFINING THE HR SKILL-SET

In order to fulfill their role as strategic partner to the CEO, board and senior business leaders, HR leaders have to have a strong understanding of the fundamentals of the business. They need to be able to participate in discussions on business strategy from both an HR perspective and a shareholder perspective, translating the human capital ramifications of business changes. Increasingly, companies want their HR leaders to be champions of business performance who take a holistic approach to motivating and developing

talent and know how to use all the available levers to achieve business objectives. These leaders will have a well-rounded business background, a solid understanding of the financials, a commercial mindset and the influencing skills to partner effectively with business leaders.

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“Human resources leaders have to know the business inside and out,” said Alan M. Ross, senior vice president of human capital management for TriZetto Group. “The successful HR executive develops programs around short-term and long-term business needs versus things that are popular or the fad of the moment.” Nancy Litzler, founder of Litzler & Associates and formerly the senior vice president of human resources for i2 Technologies, recommends that HR professionals continually develop their business skills by getting an M.B.A. or other business degree so they are in a better position to work as partners with the business leaders.

Especially in the current environment where resources continue to be constrained, HR leaders need to be strong advocates for developing talent and other long-term talent investments. “Everybody is pushing for more and more efficiency and productivity. The HR leader is going to have to be very skilled at introducing powerful value

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propositions for the company, whether it’s leadership in India or an organizational structure that breaks out a particular innovation program,” said Llamas. “HR not only has to be sensitive about aligning the HR function to strategy, but also be willing to step forward and be compelling about those human capital investments that best drive performance.”

At many organizations, the senior HR executive will have to be a leader in managing organizational change. “The change management and organizational development components of the top HR job are going to become more important. If you think about all the complexities of business today as a result of consolidation, M&A and global strategies, that’s going to require people who are adept at changing and adept at helping their organizations manage through change,” said Good.

Increasingly, HR leaders also will have to become masters of analytics to improve the effectiveness and efficiency of the human resources function and help executives across the organization make better decisions. “CEOs and other senior leaders really value HR leaders who are able to leverage analysis, metrics and analytical capabilities to focus on the bottom-line impact of decisions. I can tell you right now that I must focus as much attention on the medical budget for my organization as my overall human capital budget. Where I’m going to have an impact from a cost standpoint is how well I drive wellness initiatives and get our medical costs down,” said Kortright.

Finally, HR leaders need to be able to build great teams. As they spend more time coaching other senior leaders and focusing on higher-level strategic issues, HR leaders must be able to rely on a strong team to oversee and execute core programs. If companies are to have the HR leaders they need for the future, they must commit to training HR professionals about the business. This will require that companies be disciplined about exposing HR professionals to the business very early in their careers, for example, by inviting them to strategic planning meetings, and applying the same talent development and succession approaches to the HR function that are used to identify and develop high-potential professionals in the business. HR professionals aspiring to become true business partners must be committed to learning about the business and its issues — pushing to be invited into business and strategy meetings, learning to read the company’s financial reports and pursuing a business education. If they do not build an understanding of how the business is planned, developed and executed, HR professionals cannot be effective business partners.

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