

How CEOs Can Transform HR into a Revenue Driver

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As I visit with big companies and organizations all over the world, it's clear that most CEOs realize they need to make some dramatic changes in how they recruit people, align and manage performance, make compensation decisions, and optimize talent.

What's not so clear to them is how they make that happen. While HR leaders and their teams are supposed to bring alive the cliché that “people are our most valuable asset,” many CEOs are not yet leading the way in giving those HR leaders the tools, authority, and organizational opportunity they need to unlock the value of the organizations' talent pools.

Paradoxically, that lack of support from top executives is occurring even as [60 percent of CEOs surveyed by PwC](#) say they're concerned about not having enough talent, and/or the right mix of talent. As a result, those CEOs say, that talent gap is presenting them with some significant challenges:

- 31 percent said they couldn't innovate effectively;
- 29 percent couldn't pursue attractive market opportunities; and
- 24 percent had to cancel or delay a strategic initiative.

In many companies, a lack of CEO-level support for the HR organization and its mission keeps the HR team walled off from the ultimate sources of value in a company—revenue generation and customer engagement. This prevents HR executives from joining the rest of the company in using modern technology to gain new insights, make data-driven decisions, and engage with employees and customers more intimately and productively.

And that tricky situation will surely be compounded over the next few years as rapidly shifting demographics lead to a surge in millennials among your workforce: while millennials will comprise 36 percent of the workforce in 2014, [they'll make up almost half of it—46 percent—by 2020](#), according to a study conducted by the business school at the University of North Carolina.

The impact these young digital natives will have on your company isn't limited to their sheer numbers. In fact, the biggest influence they'll have is their demand—not their request, mind you, but their requirement—that the technology they use at work provides them with the same degree of social immersion, accessibility, and collaboration as the technology they use in their personal lives.

So the simple truth is that unless your company is offering these sorts of tools—indeed, these sorts of “workstyles”—then you'll be sending a clear signal to recruits and new employees that you're really not interested in hiring or keeping them.

For those companies that are willing to embrace the new social and mobile imperatives, you'll find that modern HCM systems will improve employee engagement, productivity, and collaboration across the organization. By having social and mobile capabilities embedded in the key context of HR processes—from social sourcing, performance, and learning goal-setting and career management—these millennial-friendly companies will create engaging, two-way environments that don't just allow but help people connect with each other and build mutually beneficial work relationships.

These are significant changes, and they require full support from the very top of the company. CEOs have to take ownership of this issue to ensure the ongoing viability of their companies. Otherwise:

- If your HR team lacks the tools to exploit social technologies to find excellent new recruits, how can your company find and hire the best people?
- If your HR team lacks the tools to identify high-potential stars within your organization and help create new high-impact opportunities for them, how will you retain top talent?
- If your HR team lacks the tools to tie compensation decisions to business strategy and real-world results, how will you be able to keep up in today's ultracompetitive marketplace?

Let me offer a before-and-after example.

Let's say Company XYZ has 100,000 employees, with annual compensation and benefits costing about \$10 billion. At the annual budget meeting, everyone turns to the head of HR as the CEO asks, "What's our plan for raises for next year?"

The HR leader squirms and looks a bit uncomfortable and says, "Our consultant says we should give 4 percent raises across the board."

The CEO asks, "Why 4 percent?"

"Uh, well, because that's what the consultant recommended, and we've used this consultant for the past five years."

"I get that," says the CEO, "but why 4 percent?"

And the head of HR swallows hard and says, "Because the consultant thinks 5 percent is too high and 3 percent is too low."

Believe me, even if that conversation seems a bit silly, it's pretty darn close to what's happening within a lot of companies. And what they need to understand is that the HR leader doesn't *want* to give such a vague answer—rather, the HR leader simply lacks the business insights and data-driven analysis to offer a more precise and relevant response.

Remember, in most big companies, compensation and benefits are the single biggest expense in the entire cost structure—by far! For company XYZ, we said its compensation costs are about

\$10 billion—so the 4 percent raise would equate to a new cost to the company of \$400 million. That’s a significant cost to the business. Yet, the HR leader doesn’t have the modern technology necessary to make an insightful and business-driven decision on whether or not that level of spend is correct or will have the desired outcome on the business!

In the “after” scenario, an HR leader equipped with a modern HCM system could have answered that question about raises very differently by saying, “Let’s step back one second and look at the overall situation that will eventually include what type of raise pool we want for next year.

“Our attrition rate for the past 18 months has been 10 percent, which means we had to replace 10,000 people this year. But because of our rapid growth, we also had to hire an additional 4,000 people to handle that growth and sustain our momentum. So this year, we had to add 14,000 new people.

“And I’m pleased to be able to tell you that with our new recruitment and onboarding system, we were able to bring on 14,000 terrific new people—more on that in a moment—and with our new talent management system, we were able to create more than 1,500 growth opportunities for our brightest people. All in one year.

“On top of that, our performance management system tells us that those 14,000 new employees are not only costing us less than average—they come in at a cumulative 93 percent of midpoint—but more than two-thirds of them are performing in the top 20 percent quintile. We’re bringing in better performers while spending less money—and because of that, I’d like to recommend that we completely rethink our old concepts of ‘annual raises’ and use our data-driven analytics to find a better way.”

Hey, it sounds great—but that type of insight simply will not come to pass if HR leaders are left behind with an old, brittle, and incompatible hodgepodge of inflexible systems *that make it impossible* for the HR to deliver quantitative insights, forward-looking analyses, and revenue-driving decisions.

Those insights are absolutely essential for companies to be able to unleash the full potential of their people and begin to deliver employee experiences that parallel the terrific [new customer experiences that today’s business environment demands](#): socially driven, optimized for mobile, and seamlessly consistent across smartphones, tablets, and PCs.

As an example of great business leadership and HCM strategy, let me mention what our friends at British Telecom (BT) are doing. One of the world leaders in communications services and solutions, [BT has just decided to install a full suite of Oracle HCM Cloud applications](#) to support the company’s growth agenda and help deliver its business strategy to more than 87,000 employees in 170 countries.

BT believes that its new HCM applications – with everything from recruiting and talent management to workforce-deployment optimization – will help the company increase productivity, accelerate business performance, and empower its people to innovate, grow, and delight customers.

Yes, those are lofty ambitions, but they're also essential in today's consumer-driven global marketplace where social-mobile lifestyles are disrupting not only how people shop and consume, but also their decisions about where they'll work and why they'll work there.

So it's up to the CEO to drive HR transformation and help HR leaders become business-centric and data-driven enablers of revenue, innovation, and superb employee experiences.