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Development Paper – The phenomenon of why Human Resource Directors do not progress to be Chief Executive Officers in the FTSE350

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Summary

This development paper explores that whilst Human Resource Directors (HRDs) are part of the Top Management Teams in FTSE350 companies, they are overlooked as a possible option in the succession plans of CEOs. The main aim of this study is to propose a conceptual talent development framework to provide HRDs with a pathway to the CEO role. Initially, theories of Structuration (Giddens, 1986) and Upper Echelon (Hambrick and Mason, 1984) are drawn upon, though it is acknowledged alternative theoretical frameworks may emerge as the research progresses. Preliminary findings from the initial three qualitative loosely structured HRD interviews will be presented in this development paper and have revealed themes and insights that cut across Structuration and Upper Echelon Theories.

Track: Strategic Leadership

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Literature review

Much research has focussed on the critical corporate role of a CEO, especially in the aspects of their characteristics (Kaplan, Klebanov and Sorensen, 2012; Datta and Rajagopalan, 1998), career progression (Guenzel and Malmendier, 2020; Koch, Forgues and Monties, 2015) and succession (Georgakakis and Ruigrok, 2016; Rejchrt and Higgs, 2014). Rejchrt and Higgs's (2014) specific research on the FTSE350 CEOs succession stated that CEO succession research had been neglected in academia. Furthermore, Shepker et al. (2018, p. 523) argued that "surprisingly little theory explains executive succession planning processes" and therefore posited that Scholars have researched HRDs progression to the role of a CEO even less. Nyberg, Cragun and Schepker (2021, p 178) cited that the candidate pool of who becomes a CEO needed to be augmented and critically stated that "CHROs are understudied". In contrast, the CIPD defines succession as "identifying and growing talent to fill leadership and business-critical positions in the future" and not just specific roles in the TMT; however, HRD roles being one of the core roles in the TMT are blatantly ignored (CIPD, 2021). The percentage of HRDs that become CEOs in the FTSE350 is less than 1%. Compared with other functional leaders, such as Chief Financial Officers (CFOs), the figure is 52% (The Robert Half FTSE 100 CEO Tracker, 2022).

Capelli and Hamori (2005 p. 2) stated that "prior research suggested that through the 1970s, Marketing was the preferred track into the executive suite, but the results have suggested Finance offers by far the best path". Capelli and Hamori (2005, p. 2) also stated that "the finance track will remain the dominant path to the C suite as long as the investor community wields a powerful influence on corporations". Previous research had not examined why women were becoming CEOs. Capelli and Hamori's (2005) research illustrated the introduction of a change in the small number of women becoming TMT members, which is significant given that HRDs are predominantly female, which may form part of the research exploration (Robert Half, 2022). Zhang and Rajagopalan (2004. p. 483) surmised homogeneity in their study into CEO succession by not only confirming Cappelli and Hamori's (2005) study but by stating that the "Devil you know is better than the God you don't". Koch, Forgues and Monties (2015) agreed with Cappelli and Hamori, arguing that current approaches as to who becomes a CEO are outdated, and new solutions were

required instead of the same old blueprint that had been previously followed regarding CEO selection. Half's (2022) survey of the FTSE350 supports Capelli and Hamori's findings.

Further demonstrating a consistent career path of the roles that succeed CEO.

Furthermore, Half (2022) concluded that 68% of succession was from internal promotions, and 91% were male. The historical profile of a CEO was white, between fifty to 70 years old and predominantly from a finance background and career. It is also evident that many CEO successors gravitate from the CFO role, and when HRDs do become CEOs, the phenomenon is reported in the Press; for example, Murray (2013) "decision to name Mary Barra as its next chief executive was hailed Tuesday as the latest breakthrough for women at industrial giants" (Nazir, 2022; Kapur, 2021). Therefore, part of the research will consider demographic insights pertinent to understanding the phenomenon.

Existing research has gravitated around theories of 'Upper Echelon' (Influenced by Personal Managerial Background) (Hambrick, 1984) and 'Structuration' (Reproduction of Social Systems) (Giddens, 1986). However, the paucity of research as to why HRDs in the FTSE350 do not become CEOs (Nomis, 2021) is a gap. For instance, there is a myriad of primary data that highlights the need for CEOs needing Emotional Intelligence to connect to their employees to attract the best talent and to connect with their employees, an area that HRDs are high in (Adigüzel and Kuloglu, 2019; Poon Teng Fatt, 2002).

Giddens's (1986) Structuration Theory could provide a possible explanation of why HRDs do not become CEOs by asserting that societal facets, power, and relationships play a part in their selection. Reutzel, Belsito, and Collins (2015) and Mosberg (2000) argue that CEOs and Boards do not consider HRDs as potential successors and the tried and tested approach to becoming a CEO is often influenced by the current CEOs background, thus exacerbating the lack of existing role models that know the field of HR. Furthermore, Koch, Forgues, and Monties (2015) research on CEO career patterns omitted even considering HR Functional Leaders in their data sets and conclusions. Moreover, the HR functional area, the potential capabilities of its leaders and how they are perceived by the Top Management Team (TMT) were ignored by Koch et al. (2015).

Upper Echelon Theory (Hambrick and Mason, 1984) may provide a useful theoretical lens to explore this phenomenon further. Notably, Hambrick and Mason (1984) inferred that HRDs did not have identical characteristics, personalities, and values, which is at odds when comparing this to Ulrich and Fillers point of view (2015) that suggested this was not the case which seems to indicate a change in perspective. Ng and Sear (2017) argued that TMTs and CEOs are currently excluding HRDs because of the credibility of HR due to the generational bias and HRDs not matching CEOs managerial backgrounds. However, Asiz (2018) argued that CEOs should be more like HRDs concerning the characteristics and personalities required. Greasley and Thomas (2020) suggested that CEOs and TMT still see HR as a fluffy, pink, soft and non-commercial function. Syed's (2021) Leathwaite data highlighted that only 78% of HRDs reported to CEOs compared to other functional leaders such as Chief Financial Officers, where this is 100% which further indicates the perceived value of HRDs by CEOs.

Hensellek, Kleine-Stegemann and Kollmann (2023) argued the evolution of leadership research that now includes and elevates the focus on the values and psychological insights of key roles like CEOs, which in turn highlights the dissection of the theories of Structuration (social) and Upper Echelon (psychological). This is significant as either theory could be drawn upon when investigating why HDRs do not become CEOs. Rejchrt and Higgs (2014) significantly argued that the paucity of UK CEO research into CEO succession was a gap, further strengthening this study's importance.

Research Methodology

The Interpretivism Philosophy will inform this research. A qualitative mono-method case study research design will be adopted, with the main aim of investigating the phenomenon of why HRDs fail to achieve CEO positions through exploring and eliciting the experiences, opinions, and views of HRDs and CEOs. The research design and methodology will use a content thematic approach focusing on phenomenology and symbolic interactions in business today. The intention is to interview a minimum of six HRDs and six CEOs to ensure that a rounded set of data is recovered and not just the views of the HRDs alone, which would only provide one view of the phenomenon. Accessing this group of people is notoriously difficult due to their time constraints, and more notably, CEOs are often

inundated with requests to be involved in interviews and research. However, six HRDRs have already been gained using the Snowball sampling strategy via a request on LinkedIn. To date, three CEOs have stepped forward. Interviews will be conducted virtually to give the interviewees as much flexibility in their diaries and recorded via Zoom (2021) and thematically analysed and coded by using NVivo (2021).

Preliminary Findings

Three principal codes and themes have emerged from the three qualitative HRDR interviews conducted so far. The first code is **SKILLS**, and the theme is the perception that HRDRs do not have the requisite commercial and financial skills to understand balance sheets, profit, and loss accounts to confidently demonstrate credibility in the Boardroom and with Shareholders when discussing such matters. Interviewee H01 commented, "I have a pet hate of HR people who are very poorly commercially aware, and there's lots of them." This was corroborated by Interviewee H04, who said, "most HR Directors are not financially literate, and I mean, and I mean, truly, financially literate!" The second code is **INCLINATION**, and the theme is based on an innate lack of desire and vision as to the possibility of reaching the role of a CEO vs other functional leaders such as Chief Financial Officers, Chief Marketing Officers, and Operational Directors. However, such is the enormity of when this does happen, it is reported in the mainstream Press. Interviewee H03 summed this up by saying, "HRDRs put strait jackets on themselves as HR Professionals", and even though they are "well versed in leadership, the understanding of leadership and being aware of about leadership, which is a huge part of the CEO's role". Interviewee H04 when asked if they could see an HRDR becoming a CEO, flatly said "No" because HRDRs focus on "functional expertise". The last code is **PSYCHOLOGY**, and the theme is HRDRs demanding a seat at the TMT table but not being able to articulate why they should. Interviewee H01 stated, "still an overwhelming number of people who in Senior HR roles behaving like victims!" Furthermore, Interviewee H01 commented " , Do you think there's any room in the world right now where there's a 100 CFOs talking about why, they're not taken more seriously as a function, or sales, or technology, or you know, finance, really that example. Because of their history and the answer is NO." Interviewee H03 suggested that "if you'd been an HRDR for a long time, maybe there is a bit of imposter

syndrome that would come along. If someone said to you, we think you're great, you are commercially savvy, and you're financially literate. We feel you'd be good for the CEO role,"; thus, inferring that if the route to becoming a CEO was open, they would not take it.

Conclusions

From a CEO succession perspective, it is clear from the literature review, data, and initial interviews that HRDs are not seen as a plausible option, if they did, we would see more HRDs becoming CEOs. It is also evident that many CEO successors gravitate from the CFO role, and when HRDs do become CEOs, the phenomenon is reported in the Press. This research will contribute to both theory and practice in several ways. Firstly, by adding to the body of knowledge in the field of succession planning, secondly by addressing gaps and shortfalls in the existing literature, thirdly by providing insights into why HRDs do not progress to CEO positions, and finally, and most importantly, by proposing a conceptual talent development framework to give HRDs with a pathway to CEO progression.

The main reasons for presenting this paper at BAM is to seek advice and guidance on which theory to go with and to explore if there are any other theories that may be more relevant. In addition, I would like to gain insight as to if there are any other research sources that may apply to developing this paper further. In the interim, I will keep researching academic literature and finalise the first-round interviews, which I have agreed may require follow-up post-BAM.

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