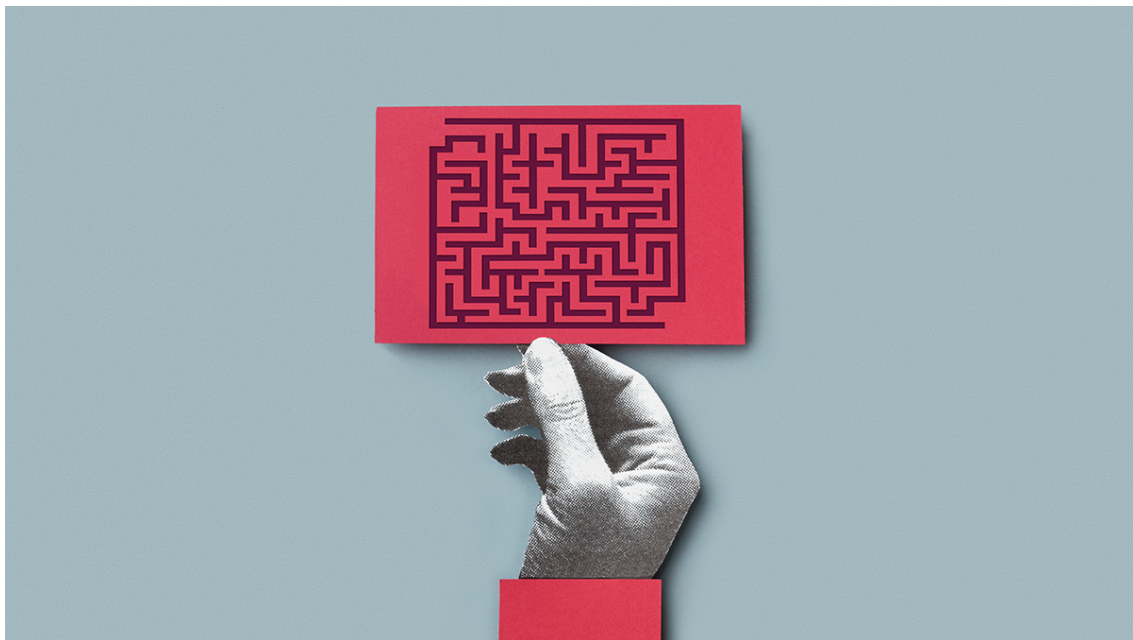


Managing Organizations

5 Challenges Facing CHROs at Midsize Companies Today

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Summary. CHROs in 2021 have a lot to accomplish, but never before has the office of the CHRO been so critical and relied on to maximize not just talent performance, but enterprise financial performance as well. And for those who lead HR functions in middle-market... [**more**](#)

The CHRO's agenda has never been more daunting than it is in 2021. In addition to their normal workload, CHROs have been dealt a full hand of challenges that have a direct impact on a company's ability to

recover and grow.

The agenda is particularly difficult for CHROs of midsize and emerging enterprises, which typically must meet big-company tests with small-company resources. For example, an organization with 300 full-time employees usually has just three or four full-time HR people — enough to cope with business as usual, but not with extraordinary challenges.

And 2021's challenges could not be more extraordinary, as our research and experience show. Late last year, we conducted two projects — a survey and a best practices study — with AchieveNEXT's CHRO Alliance, a peer-to-peer network of 2,000 CHROs from U.S. middle-market companies. One of us (Robyn) oversees that network; the other (Dina) is a member, serves on its Global Advisory Board and heads up human resources for the Faulkner Automotive Group, an 89-year-old, family-owned-and-operated company that employs nearly 1,600 people at 28 automobile dealerships and 10 collision centers in Pennsylvania.

Based on those studies, our experience, and the experience of CHRO Alliance members, we've identified five top-of-mind issues for middle-market CHROs. Each of these challenges intersects with the others, but solutions to one can help the others.

Managing a return to workforce growth

Data from our sentiment study shows the scope of these issues. After a year where most company payrolls shrank or held steady, more than 61% of middle-market companies say they will add to their workforces in 2021, while just 4% will reduce staff further.

But hiring practices that worked in 2019 may not work in 2021. Where will new employees come from? How can midsize companies make their case (i.e., sell their employer brand) in this new environment? How should candidates be interviewed? What's the best way to onboard and integrate new employees, whether they're onsite or working from home?

Reskilling and upskilling employees

At the same time, current employees — in the company as a whole and within HR — need to learn new skills, chiefly digital ones. Training ranks second on CHROs' priority lists, after hiring, but more than 55% of middle-market CHROs tell us their training and development capability is either weak or extremely weak, which is not surprising given how thinly staffed they are.

The need for digital and data-analytics skills exacerbates the problem, because HR teams themselves often lack those skills. Sixteen percent of middle-market HR leaders say that their top departmental challenge is addressing weaknesses in HR processes, information systems, and use of analytics tools — weaknesses revealed because the pandemic forced HR to rely more on technology to do their jobs.

Revamping HR systems and processes

Improving skills and technology go hand in hand. At Faulkner Automotive, many issues we faced had little to do with software availability but more with how well we used what we had. Prior to the pandemic, we could get the job done using bits and pieces of the technology available to us. We mastered workarounds. Many employees ignored the training we offered them, and we let them.

That patchwork fell apart when customer interactions increasingly moved online and we started working from home. Our computers were hardwired to office networks. For a while, we couldn't even get enough laptops. Once we were able to stock laptops and significantly increase remote utilization, lines and servers failed — not across the board, but enough to highlight needed infrastructure upgrades (for example, to improve our customer relationship management software and integrate our HR information system with the accounting system).

Recharging employee engagement and productivity

As the worst of the pandemic passes (or so we hope), HR leaders face a fourth challenge: Recharging employee engagement and productivity in a remote, hybrid, or otherwise changed workplace environment. Burnout — not just “Zoom fatigue” — is all too common as remote employees often sit at their desks for 12 hours a day without the natural breaks and informal chats of pre-Covid working life. New cultural divides may open — for example, between teams that can work mostly from home and frontline employees who don’t have that option, or even between those working from comfortable home offices and those at kitchen tables.

At Faulkner, we found that employees in the workplace needed more interaction with their managers than previously anticipated, if just to reduce anxiety, share information in the moment as expectations and rules changed, and build camaraderie. HR leaders also have to be on top of constant regulatory changes. Updates from the CDC and local health officials put a major strain on managers and employees who remained in the workplace.

When the pandemic began, performance management was put on the back burner as enterprises struggled to operate remotely, find cash, adapt, and survive. But, almost a year later, investing in talent development through a performance management process is a focus for CHROs. Over 50% of sentiment study participants rated their performance management process as extremely weak or weak.

Ad hoc or ineffective performance management processes stifle growth because companies fail to find and reward their most productive employees (and weed out the least productive). Weak or nonexistent performance management brews a toxic culture of mistrust, uncertainty, and favoritism, where employees feel marginalized, don’t know what they need to do to succeed, or don’t understand why one person got promoted and another didn’t.

These issues, exacerbated by the pandemic, hit middle-market companies especially hard, because they’re likely to have relied on informal people processes and may erroneously view formalized

performance management as too bureaucratic. Investing in employees — particularly those with high potential — is at the top of the middle-market CHRO agenda as critical to recouping any productivity losses, energizing the workforce, and consequently driving enterprise performance in 2021.

Addressing urgent diversity, equity, and inclusion issues

Finally, diversity, equity, and inclusion (DEI), an imperative prioritized by the current cultural climate and catapulted to the forefront by the death of George Floyd, is a top priority for CHROs in 2021. While many enterprises touted a commitment to DEI prior to the racial unrest that began in the summer of 2020, those events were a revelatory catalyst for the need for a more strategic, integrated, comprehensive approach. Additionally, Covid-19 itself and the organizational response to it (from school closings to layoffs) has hit women and minorities disproportionately hard.

Looking forward to 2021, almost 75% of sentiment study participants said DEI is somewhat critical to very critical to the future financial performance and sustainability of their enterprises. The real issue for middle-market CHROs is how to accomplish that with already full plates, little to no horsepower, and limited true expertise in an especially complex area of enterprise change.

How to approach the challenges

Given how resource constrained middle-market HR is, how can a leader cope with such a big agenda? Here are four tips based on our experience.

1. Don't go it alone. Each of these initiatives has natural allies. For example, workforce optimization is something that both you and the COO can benefit from. Enlist that person as a co-sponsor, source of funds, etc.
2. Get advice from peers. A lot of what's written about these types of issues is aimed at big companies and might be too expensive, complex, or "process-y" for a middle-market company. Peer

- networks can be a great source of advice and a way to connect with outside advisors who work well with companies your size.
3. Bring in external expertise and horsepower. There's often not enough time or internal expertise to try to tackle these bigger initiatives without outside help, but it's worth the investment — otherwise it might never get done. DEI is an example: Few midsize companies will have enough specialized knowledge to initiate a DEI program internally.
 4. Above all, use your company's strategy to help you set priorities and command attention from the CEO and others in top leadership. Too often, even worthwhile HR initiatives are treated as organizational afterthoughts (“nice to haves”) after dealing with topline growth, margins, and operational issues. Things get much easier when the CHRO can draw a straight line from business operations to people projects — for example, helping sales reps develop the skills to sell remotely, or improving efficiency by connecting HR information systems to the CFO's office. That's actually easier to do in midsize enterprises than in large ones, in part because executive teams are closer knit and because a business-savvy HR leader can often interact directly with customers, vendors, and investors in ways rarely available to their counterparts in large enterprises.

CHROs in 2021 have a lot to accomplish, but never before has the office of the CHRO been so critical and relied on to maximize not just talent performance, but enterprise financial performance as well. And for those who lead HR functions in middle-market enterprises, there's additional opportunity to positively impact rebound and growth by relentlessly focusing on people, process, and performance.

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