The HR Threat to Board Effectiveness

By Mark B. Nadler and Julie J. Chen

As boards face growing pressure to step up their understanding and oversight of strategy, operations, and risk, directors are digging deeper than ever into the details of finance, compliance, and technology. What we don't see—and what should keep shareholders up at night—is boards attaching similar importance to the information and guidance they should be getting from human resources, but often don't.

To the contrary, the traditional role of human resources (HR) as a minor player in the boardroom remains largely unchanged, even as matters HR routinely deals with—talent, culture, and executive succession—should be assuming greater significance to the board than ever before.

That situation was underscored by a survey of directors our firm, Nadler Advisory Services, conducted late in 2014 in collaboration with the National Association of Corporate Directors (NACD). Of the more than 100 directors who responded—all of whom are members of their board's compensation committee, and nearly 40 percent of whom chair that committee—only 31 percent said their chief human resources officer (CHRO) had a "great deal" or even a "good deal" of influence over their board's decisions.

Among the other key findings:

- Fewer than half of the respondents rated HR's value to the board as either "good" or "great" in eight of 11 areas where the board and HR work together, including a dismal 12 percent in risk management.
- CHROs were rated less than "good" or "great" by more than half of directors in crucial areas such as articulating a comprehensive talent strategy, ensuring that talent considerations are included in the board's discussions of risk, and in all 10 activities related to CEO succession planning.
- The CHRO rated lower than any C-suite role other than chief marketing officer in terms of how much their influence in the boardroom has increased over the last five years.

The absence of an effective and influential voice in so many boardrooms poses a growing threat to boards facing unprecedented challenges from regulators, activist investors, and concerned shareholders. It's difficult to imagine how any board can truly grasp, much less question, its organization's strategic opportunities and potential risks without a deep understanding of the organization's talent, culture, and leadership pipeline. Yet HR continues to be a minor player in the boardroom, either absent or ineffectual during so many discussions where it ought to have a prominent role.

Who's to blame? Without question, there are far too many CHROs who lack the business acumen, strategic perspective, and personal presence to be viewed by the board as a trusted senior advisor. There are still too many CEOs who think of the CHRO as a glorified personnel director who is positioned as a subordinate to one of the CEO's direct reports, a status guaranteed to result in second-class citizenship in the eyes of the board. Finally, there are far too few directors—no more than 10 percent, according to the Center for Effective Organizations at the University of Southern California—who have enough HR experience to truly appreciate the ways it can help the board do its own job more effectively.

Regardless of who is at fault, it is the board—and, ultimately, the shareholders—that pays the price for less than outstanding HR guidance in the boardroom. Consequently, it is the board's responsibility to make sure the problem gets fixed. Based on our experience and the supporting data from our recent survey, here are seven things boards can do to get the value they need from HR.

1. Demand that the CHRO be a talent strategist. At too many organizations, you can still find CHROs who major in HR transactions and minor in HR strategy. In our survey, only 48 percent of the directors gave their CHRO good marks for articulating "a comprehensive, business-based talent strategy." Directors should demand that the CHRO position specific initiatives and decisions in a holistic context, and then explicitly link the HR strategy to the overall business strategy. There's absolutely no way the board can aggressively assess major strategic initiatives—geographic expansion, a shift from products to services, a big bet on innovation, etc.—without an informed discussion of the talent and culture implications.

2. Remember there's nothing "soft" about culture. The topic of organizational culture has traditionally been viewed as too "soft" and ephemeral for the boardroom. But times have changed, and boards are beginning to think about culture in the context of their own responsibilities. More specifically:

- One of the board's top duties is reviewing planned mergers and acquisitions. Approximately two-thirds of M&As are considered failures, and the overwhelming majority of those failures are attributed to culture. An informed HR perspective on culture fit should be a standard part of every M&A discussion by the board.
- The financial crash of 2008 led to intense scrutiny of the dysfunctional organizational cultures that spawned and rewarded the institutional practices and individual behaviors that fueled the meltdown. Now—sometimes with heavy-handed assistance from regulators—boards are seeing a more direct connection between culture, performance, and compliance.
- Culture has emerged front and center on the business radar as a source of competitive advantage. You constantly hear directors ask: "How does Apple do that?" How does Google do that?" And, "Why can't we?" More often than not, the answer involves culture.
- For all those reasons, the board should insist that the CHRO be in the room with plenty to contribute when culture becomes relevant.

3. Make sure the CHRO is in the room. In fact, the CHRO

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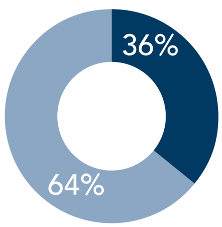
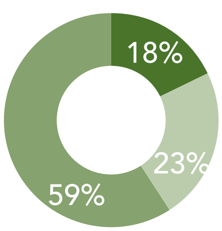
Methodology

During the fall of 2014, with the help of NACD's research team, Nadler Advisory Services invited 1,000 directors to participate in an online survey, to which 103 responded. NACD sent invitations to compensation committee chair advisory council members and to compensation committee chairs in the NACD membership database. The charts on page 44 show the breakdown of respondents in terms of company size and ownership, and board role. The full results of the 62-question survey were reported in the Spring 2015 issue of *HR People + Strategy*, the journal of the professional organization of the same name.

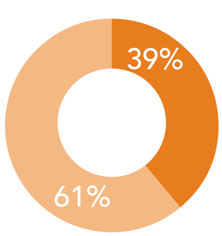
Type of Company



Company Size
(In annual revenue)



Role



ought to be in the boardroom on a regular basis. Previous research by Edward Lawler III and his colleagues at USC has shown that the CHRO always attends board meetings at only 19 percent of U.S. companies, compared with 91 percent for chief finance officers. We have personally sat through board discussions of issues such as the lack of qualified managers required for a vital expansion of operating sites, or the persistent problems in a regional bank's loan portfolio due to poorly trained loan officers, without the CHRO even being in the room, let alone having a part in the conversation. If the CEO doesn't require the CHRO to attend a portion of every board meeting, the board should be asking why.

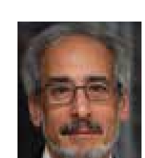
4. Require updates on HR innovation. Good directors want to know what their company can learn from what others are trying. You now most frequently hear that discussion in the context of IT and, more specifically, cyber risk. It's heard less often in connection with HR. In our survey, only 32 percent of directors said their CHRO was doing a good or great job of keeping them informed of relevant innovations in the field. The board should expect the CHRO to regularly update them on innovative ideas for recruitment, retention, employee engagement, talent development, culture change, etc., along with clear recommendations on which to pursue.

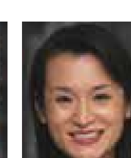
5. Get serious about CEO succession. The last few years have brought some dramatic improvements in the CEO succession process, including an accelerating tendency for boards to assume the lead role in an area traditionally dominated by CEOs. In the best cases, the CHRO remains an essential player, with the often-sensitive dual role of supporting both the CEO and the board in planning the process, identifying and developing candidates, and finding the right outside resources. But the best cases are still all too rare; only 37 percent of the directors we surveyed said their CHRO contributed "good" or "very good" value to the CEO succession process. We have personally observed situations in which the board explicitly excluded the CHRO from the process—a dysfunctional scenario for all concerned. The board should be dealing with the CHRO on a regular basis, starting years in advance of the planned transition, to ensure management has developed both long-term and emergency succession plans.

6. Always factor HR into the risk equation. Probably the most disturbing statistic from our survey was one we mentioned earlier: only 12 percent of the directors rated HR's value in the area of risk management as "good" or "great." And only 35 percent said their CHRO did a good job of "ensuring that talent considerations are integral to the board's consideration of enterprise risk."

We submit that any board trying to assess enterprise risk in the absence of "talent considerations" is flying blind with the fuel gauge on empty. As a matter of course, boards should require that HR be fully and formally incorporated into the enterprise risk management process, and should ensure the CHRO is present and engaged in relevant board room discussions.

7. It's all about the CEO's priorities. At the end of the day, the real key to appropriate HR involvement lies with the CEO. The CHRO can't unilaterally define his or her own role, or select whom he or she reports to, or invite himself or herself to board meetings. If the CEO doesn't think of HR as a strategic asset or see the CHRO as a senior trusted advisor, then there's absolutely no way the CHRO will be positioned that way to the board. If the board isn't getting the value it needs from HR, it should instruct the CEO to fix the problem—either by redefining the role or by getting the right person in the job, or both. Boards are rarely bashful about telling the CEO that they're dissatisfied with the guidance they're getting from the CFO or CIO. It's time for them to take a similar interest in the CHRO and the HR function. D





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