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**HUMAN CAPITAL MANAGEMENT: WHAT  
ARE BOARDS DOING?**

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## **Human Capital Management: What are Boards Doing?**

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One of, if not the most important asset of today's corporations is their human capital. CEO's and board chairs recognize this and frequently make statements that say people are our companies' most important asset. Confirming this, researchers have shown that intangibles account for an increasing percentage of the market value of corporations and of course human capital, along with the knowledge and intellectual property they create is one of the most important intangible assets that corporations have.

Given the importance of human capital, it seems logical and critical that boards pay attention to the condition of their organizations' human capital and how it is being managed. Indeed, it might be argued that boards should spend as much time focusing on human capital as they spend on the financial and physical assets of their corporation. But do they?

In order to determine how much and what kind of attention boards give to their organizations' human capital, the most recent Heidrick & Struggles/Center for Effective Organizations' annual survey of board members focused on human capital. It surveyed board members of large U.S. corporations and received responses to the survey from 116 firms.

The results of the survey suggest that boards are largely missing in action when it comes to monitoring human capital. They do focus on succession planning at the top and many of them do see this as an important activity of the board. But, when it comes to them monitoring most of the talent in the organization, its condition and how it is managed, the situation is very different.

In order to be effective in managing human capital, board members need information about the practices and results of these practices as well as knowledge and expertise in human capital management. Survey results suggest that boards lack both information and expertise.

## **Information**

Board members are confident that they receive sufficient information to carry out their board responsibilities; 90 percent say they do. But, their reports concerning how much data they receive about their companies' assets vary tremendously. At the bottom is information about the company's human capital, its culture and how it is managed. With respect to these issues, board members report that overall they receive only small amounts of information.

When asked whether the board receives specific kinds of information about human capital, the results are mixed. As can be seen in Table 1 boards do get succession planning data for most management positions; those that don't get it say that they should. The situation is quite different however with respect to succession planning for technical positions, metrics on turnover, metrics on recruiting success and attitude survey data. In these cases only about half of the boards get information, although those that don't typically say that they should get it.

There is no obvious explanation for why so many boards report that they don't get information about human capital management, but feel that they should. Perhaps management is hesitant to report these data because they fear board micro-management and boards are simply not demanding enough when dealing with management on this issue. Another possibility is that management simply doesn't have the data. Obviously, without the kind of data that boards say they should get but don't get, it is difficult for them to play an informed role in monitoring the human capital management programs and practices of their firms.

## **HR Expertise**

Critical to effective decision making with respect to an organization's human capital is board expertise in human capital management. A good indicator of the expertise board members have is whether they have worked in an HR related job. Our survey results reveal that most boards have no members that have a background in HR management. When asked if their boards have either HR VP's, HR consultants or university faculty members with expertise in HR, board members typically replied that they had none of them (see Table 2). Only about one board in five has a member who has expertise in human capital management.

When asked who they relied on for expert knowledge pertaining to human capital management, the most frequent response by board members was other board members. This is a bit surprising given the fact that few boards actually have HR experts on them. They also reported that they rely on corporate HR staff members as a credible and potentially valuable source of information. Another source they report is consultants, but this is a less frequent source than other board members and corporate HR staff members.

## **Decision Making**

One way to increase the focus of a board on human capital is to have a board committee that is responsible for monitoring the organizations' workforce. Of the organizations studied, only thirteen percent report that they have a human capital committee. Seventy-five percent report that they have never even considered having one. Clearly this is not a popular option.

## **Effectiveness**

Board members are aware that they are not particularly effective at monitoring how the workforce is managed. When asked to rate on performance effectiveness areas of board activity ranging from long term strategy development to assuring accurate financial reporting, they rated monitoring the firm's management workforce area lowest in effectiveness. Slightly less than half said they are effective at this whereas when it comes to monitoring the financial performance almost ninety percent said they are effective at it.

## **What Needs to be Done**

Overall the data clearly indicate that human capital receives little attention at the board level of corporations and board members feel their performance in this area could be much better. Some of this may reflect the fact that human capital is becoming increasingly important and has caught boards by surprise since their membership and structure has not been targeted toward dealing with human capital issues. Further, for some organizations, human capital may not be a very important asset. For these companies, lack of attention to human capital is not a problem and they most likely do not need to change. But what about companies where human capital truly is one of the most important? What do they need to do? I have four suggestions.

1. **Scorecard.** Organizations need to establish a balanced human capital management scorecard. Exactly what the metrics are that need to be in the scorecard will vary from organization to organization. At the very least, however it should report on the condition of the human capital of the organization and how it is managed. This means that it should include data on turnover, recruiting as well as attitude and culture data. Particular critical is succession data for management positions and key technical positions. Not all of these

measures need to be discussed at every board meeting, but many of the items on the balanced scorecard should be reported at each board meeting.

2. **Board Knowledge.** As part of the required development experience for board members, they should be educated in human capital management. There is an enormous amount of research evidence about what constitutes good human capital management and what practices are effective and ineffective. Most board members are not familiar with this content and they need to be exposed to it so that they can interpret the HR scorecard data they receive and evaluate the HR practices and policies of their company.
3. **Board Membership.** All boards should have at least one member who has in-depth expertise in human capital management. There is no shortage of individuals who have this expertise. There are a number of outstanding HR VP's who can bring this expertise to boards and of course there are numerous consultants and academics who are available and have this expertise.
4. **Create a Committee.** The complexity and importance of the human capital issues that companies face warrant boards creating a human capital committee. This committee should not micromanage the HR side of the organization, but it should monitor the condition of the organization human capital and influence the human capital management practices of the company. As with any corporate board committee, it needs to determine what issues go to the board and what data are needed to monitor the activities of the company and to call attention to potential liabilities and weak points in the company's management processes. In the absence of a human capital committee it is hard to get the kind of attention from senior management that human capital warrants, but perhaps most importantly it is hard to get the

board's attention. There simply is not enough time in most board meetings to have the kind of in-depth discussion and analysis that is needed to do an adequate job of monitoring an organization's human capital, thus it is particularly important to have a human capital committee.

## **Conclusion**

In order for boards to be effective in dealing with human capital issues, major changes are needed in most boards. They need to greatly increase the information they have, the knowledge they have and the focus they have on human capital issue. This is not an easy change since many board members don't have a history of focusing on human capital management and may not be particularly receptive to boards looking more closely at this area. In addition, the senior management of companies may resist their boards monitoring how human capital is managed because they fear the board will be overly directive and prone to micro-management.

Nevertheless, it is critical that boards improve their oversight and performance when it comes to human capital issues. It is not just a matter of legal liabilities with respect to bad human capital management. Quite to the contrary, it is a matter of creating a potential competitive advantage by being a better organizer of human capital than other companies. Because human capital is an important determinant of organizational performance, it is possible to manage human capital in a way that provides a competitive advantage. But, this is unlikely to happen if the board is not supportive and knowledgeable with respect to human capital management.

**TABLE 1. INFORMATION RECEIVED**

	<b>Get and Should</b>	<b>Get but Shouldn't</b>	<b>Don't Get but Should</b>	<b>Don't Get and Shouldn't</b>
<b>Succession planning data for most management positions</b>	<b>73.1</b>	<b>0</b>	<b>24.4</b>	<b>2.6</b>
<b>Succession planning data for key technical positions</b>	<b>46.8</b>	<b>1.3</b>	<b>32.5</b>	<b>19.5</b>
<b>Metrics on turnover</b>	<b>59.0</b>	<b>3.8</b>	<b>33.3</b>	<b>3.8</b>
<b>Metrics on recruiting success</b>	<b>49.4</b>	<b>5.2</b>	<b>36.4</b>	<b>9.1</b>
<b>Attitude survey data</b>	<b>51.9</b>	<b>1.3</b>	<b>42.9</b>	<b>3.9</b>

**TABLE 2. HUMAN CAPITAL EXPERTS ON BOARDS**

	Percent of Boards with
HR VPs	10.3
HR Consultants	6.4
HR University Faculty	11.5
Any of the Above	21.8

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