

C

E



Center for
Effective
Organizations

CHRO's and Boards: A Missing Link

**CEO Publication
T 10-05 (573)**

Edward E. Lawler III
*Center for Effective Organizations
Marshall School of Business
University of Southern California*

May 2010

CHROs and Boards: A Missing Link

Edward E. Lawler III
University of Southern California

It's not a pretty picture – in fact, it is not much of a picture at all! The relationship between corporate boards and CHROs is often so distant as to be of little practical significance from a board and organizational effectiveness perspective. There are a number of reasons for this and some things that can be done to improve the relationship between CHROs and boards. However, before considering them, we need to look at the nature of this relationship.

CHRO's Role With the Board

The role of CHROs is complex and multi-faceted, as the chapters in this volume point out. Because of this, there are definite limits to the amount of time that CHROs can spend dealing with the board and board-related issues. This may be one of the reasons, but perhaps not the most important reason, why CHROs report spending only 10 percent of their time in dealing with corporate board issues (Wright, 2010). In any case, given this small amount of time, it's hard to imagine CHROs having a major impact on board decision making in many areas.

Relatively few CHROs are actually on their company's board or, for that matter, any other board. About 10 percent of the boards of large U.S. corporations report that they have a former or present CHRO as a member (Lawler, 2009). When combined with other HR experts who can serve on boards—for example, consultants and university professors—only about 20 percent of the boards in the United States have someone on them who can be classified as a human capital expert. Thus, not only are HR executives usually not on boards, other individuals with HR expertise usually are not on boards.

The low level of HR expertise on boards means that for HR expertise, boards have to rely on their members and on consultants and others who attend their meetings. This raises the question of whether the head of HR is typically invited to attend board meetings. Table 1 presents data from a survey of corporate boards that addresses this question (Lawler and Finegold, 2006). As can be seen, the head of HR *always attends* board meetings in only 19 percent of the corporations studied and *often attends* board meetings in an additional 22

percent of corporations. This is more than most of the other functional heads in these corporations but significantly less than CFOs, who in 91 percent of the companies are always in attendance at board meetings.

Table 1

Attend Board Meeting						
	Board Meeting Attendance					
Executive	Never	Rarely	Sometimes	Often	Always	On Board
Chief counsel	1	3	4	7	85	3
Business unit heads	0	4	22	43	31	0
Head of HR	6	19	35	22	19	1
CFO	0	0	1	8	91	7
CIO	8	28	40	15	9	0
Head of marketing	10	29	37	15	9	0
Other executives	0	10	51	28	11	1

Percentage Frequency

HR Support for Boards

CHRO attendance at board meetings and support for board activities is positively related to a number of board effectiveness measures (Lawler and Boudreau, 2006). Particularly notable are board activities that involve the operation of the board, such as its assessing the performance of senior executives and the CEO's performance evaluation. Thus the relatively infrequent presence of CHROs at board meetings is in fact a potentially significant factor in reducing the overall effectiveness of corporate boards.

CHROs can provide expertise to corporate boards in a number of areas and help them with their decision making and ongoing operation. Table 2 shows how frequently senior HR executives report their board calls on them for support help. The areas where help is requested can roughly be categorized into dealing either with the operation of the board with respect to talent management issues (e.g., compensation) or with organizational strategy, effectiveness, and change issues. Not surprisingly, there is a big difference between the amount of support they provide in these two areas, with talent issues being the highest.

Table 2

Amount of Support HR Provides to the Board						
Areas of Support:	Little or No Extent	Some Extent	Moderate Extent	Great Extent	Very Great Extent	MEAN
Executive compensation	4	5	7	32	52	4.2
Board compensation	18	17	7	25	33	3.4
Developing board effectiveness / corporate governance	33	20	21	17	8	2.5
Addressing strategic readiness	19	24	22	25	9	2.8
Executive succession	4	14	18	29	34	3.8
Change consulting	24	22	35	13	6	2.6
Risk assessment	27	28	29	12	3	2.4
Information about the condition/capability of the work force	10	10	37	27	15	3.3

The highest-rated single issue is executive compensation, followed by executive succession. Board compensation also receives a high rating, which is not surprising given the importance of compensation to the board members themselves and the expertise and knowledge that HR executives have in this area. Perhaps the best way of characterizing the kind of help that the CHRO usually provides to the board is that it is human capital consulting and advice help.

When it comes to what might be called strategic partner help that is, addressing strategy and organizational effectiveness issues, much less help is provided (Conger, Lawler, and Finegold, 2001). Somewhat surprisingly, the same is true when it comes to helping develop the board as an effective unit and with respect to corporate governance. The HR functions in some corporations have organization development capabilities and process consulting capabilities that potentially could help the board develop their decision making processes and make better use of their time. But these apparently are not frequently used by boards to improve their effectiveness.

HR provides relatively little support in such key business strategy areas as assessing strategic readiness, change management, and—a particularly critical issue in the last decade—risk assessment. One area where it does provide a moderate amount of information that potentially could play a major role in influencing the board strategic decision making is the condition and capability of the workforce. This of course is a topic that is in the traditional scope of HR as the talent management staff group, and is very much potentially related to the business strategy decisions that boards make. How relevant workforce capability is when it comes to strategy of course very much depends upon the nature of the business the organization is in and how it seeks to gain a competitive advantage (Conger, 2009).

One piece of evidence showing that boards don't take human capital as seriously as financial capital when it comes to decision making concerns their committee structures. Most boards do not have a human capital committee that focuses on talent management (Conger, 2009). They often have a committee that's called a human resource committee, but its major, almost exclusive, focus is on executive compensation and executive succession. It is rarely a true overseer of the human capital of the organization, one that gathers data on the condition of the human capital, monitors it, and determines whether the human capital policies and practices of the organization are well aligned with the business strategy.

It may be a bit too negative, but a reasonable conclusion based on my studies of boards in the U.S. is that boards do not place great importance on the condition of the workforce and the availability of talent when they make strategy decisions. If they did, there would be a much greater presence of the CHRO in board meetings and boards themselves would have more HR executives, or at least HR experts, on them.

Perhaps the best way to characterize the relationship between CHROs and boards is that, as representatives of HR, they are likely to be “business partners,” not “strategic partners.” They are business partners in the sense that they help their board deal with the HR issues the board has to deal with, both within the board and the decisions that board members have to make about key executives with respect to compensation and succession. They fall short as strategic partners because of their relatively low input into issues like strategic readiness, developing and improving the board's effectiveness, and corporate governance practices. It seems that when the issue is not clearly a traditional HR issue, the board is not particularly inclined to ask for help from HR nor

to get input from an HR expert because there is no one on the board or in the boardroom who has HR knowledge.

What Should the Role of the CHRO Be?

A strong case can be made that CHROs should be at most, if not all, board meetings. Just like CFOs, CHROs are responsible for one of the most important assets corporations have. The importance of financial capital is reflected by the fact that in 91 percent of U.S. companies, the CFO is always at board meetings. The degree to which companies only give lip service to human capital being an organization's most critical asset is reflected by a fact that as mentioned earlier: in only 19 percent of companies is the CHRO present at all board meetings.

In addition to the CHRO attending meetings, organizations should have an independent (outside) board member who is an expert in HR. Given the emphasis on independent board members it is quite understandable, in fact appropriate, that the CHRO should attend board meetings but not be on the board. However, that doesn't mean there shouldn't be an HR expert on the board. To the contrary, an HR expert should be on the board to provide expert judgments and input on issues involving the organization's human capital.

The presence of the CHRO in the boardroom and the presence on the board of an HR expert should create a situation in which the board takes a strategic look at human capital and HR issues. Their presence combined with the right expertise in the HR organization should in fact create a board that is more effective because it does take a strategic look at human capital. It particularly should open the door to HR being a true partner in developing and implementing the business strategy of an organization.

Data suggest that HR only infrequently is a full partner in developing the business strategy of an organization; in most cases it has an input role, but not a partnership role (Lawler and Boudreau, 2009). There is a key difference between a CHRO who is a strategic partner and one who is a business partner. In order to successfully fill the role of strategic partner, the CHRO needs a considerable amount of HR data and a decision-making capability. An interesting model here is the CFO. CFOs come to boards and set the table for discussions concerning operations and business strategies by discussing the metrics and analytics that are established in the financial arena (Boudreau and Ramstad, 2007).

CHROs need to come to board meetings with human capital metrics and decision models that indicate

what the right business strategies and tactics should be, based on organizational capabilities and the availability of human capital. In other words, human capital management needs to be elevated, not just in attention but in metrics and analytics, to the same level as financial management. Unless this happens it's unlikely that CHROs will ever not just have a seat at the table, but will set the table for discussions about business strategy and organizational effectiveness.

Making It Happen

What needs to happen in order for CHROs to become true strategic partners with the board? One way to answer the question of what will make the CHRO more of a strategic partner with the board is to look briefly at what currently prevents it from happening. At or near the top of the list is the fact that CHROs rarely have any training in dealing with boards. Since they aren't on outside boards, they don't have the experience of seeing what happens with the boards of other companies. Since they aren't on their own company's board, they miss that opportunity to learn as well. And finally, because they don't sit in board meetings they often don't even have the chance to observe how boards deal with issues, make decisions, and operate.

Some of the things that CHROs need to know in order to be effective working with a board can be learned in the classroom and by being on boards other than those of large corporations. This leads to the suggestion that CHROs join the boards of nonprofits and smaller companies. There also are numerous educational programs offered that are directed at educating board members that CHROs should consider taking.

To be effective board members and have credibility, CHROs need to know the language and decision models of finance, accounting, and operations and have credibility with respect to understanding the business and the business strategy. Much of this can be learned before HR executives become the CHRO and, more and more, having this expertise should be a condition for someone becoming a CHRO. Appointing someone whose business experience is only in HR to the CHRO role almost predetermines that the individual will not be a true strategic partner with the board.

One area where some HR departments are not meeting the information needs of their boards is talent management. When board members were asked in our annual CEO survey of board members about the

information they get and what they want to get, some interesting failures appeared. As can be seen in Table 3, over a third of the board members don't get, but would like to get, some basic data on the condition of the human capital in their organizations. Providing this information is a must do for the CHROs. Providing it may not make them strategic partners, but it can be a step toward making the CHRO a source of useful metrics.

Table 3

Information Given to the Board				
	Get and should	Get but shouldn't	Don't get but should	Don't get and shouldn't
Succession planning data for most management positions	73.1	0	24.4	2.6
Succession planning data for key technical positions	46.8	1.3	32.5	19.5
Metrics on turnover	59.0	3.8	33.3	3.8
Metrics on recruiting success	49.4	5.2	36.4	9.1
Attitude survey data	51.9	1.3	42.9	3.9

When it comes to CHROs not being true strategic partners with boards, another reason for it may be the tendency of board members to think they or others on the board are experts in HR. When asked who they rely on for HR expertise, board members often say the CEOs of other companies who are on their board. Needless to say, there is a great deal of research on evidence-based management, which shows that most executives do not know a great deal about human capital management. Clearly, more managers knowing and accepting this would make it easier for CHROs to gain access to the boardroom and to be influential in the boardroom.

There are some things that CHROs can do with respect to getting other executives to recognize their misguided sense of competency when it comes to talent management. The use of sophisticated analytics and the right metrics can help HR establish the type of business credibility that can lead to CHROs being on boards and attending board meetings. Part of the credibility of areas like marketing and finance come from their analytic

approaches and the fact that they make it clear to other executives that there is an expertise here that is not just "common sense." HR needs to take a similar approach.

Finally, the way the HR function itself is structured can also have an important influence on the degree to which the CHRO plays a strategic role with the board. Research shows that having corporate staff groups with strategic HR expertise is significantly related to the degree to which the board looks to HR for strategic help (Lawler and Boudreau, 2006). Corporate staff groups are needed that can do the kind of analytic work that ties organizational effectiveness to organization design and to HR policies and practices. Similarly, HR staff expertise in human capital development, labor economics, talent supply, and the cost of talent procurement and development are important determinants of how much boards look to the CHRO for input on strategic decision making.

Time For a Change

It is time for CHROs to change their role with respect boards. They need to go beyond simply providing talent management support to the board and enter into a strategic support and advice relationship with the board. Human capital management and business strategy decisions are simply too important to be left to board members who lack expertise and data on talent management and organizational effectiveness.

Today, the typical CHRO has occasional access to the corporate boardroom but is not a valued board support person to the same degree that the CFO is. This clearly needs to change if the CHRO is going to be a strategic business partner. It also needs to change if organizations are to manage their human capital in a way that optimizes the performance of the organization and makes the HR function a true strategic partner.

Strategic business decisions need to be made by informed boards that understand how human capital and organizational design issues impact the performance of organizations and how they need to think about, analyze, and manage the human capital and human capital systems of their organizations. Getting this done requires the presence of HR experts, both on boards and in the boardroom as supporters of the board. It also requires a committee of the board that looks at HR and organizational issues in more depth and presents recommendations and analyses to the board. The CHRO's role in this should be to support both the talent or human capital committee of the board, and of course the board itself with data, decision models and strategic analyses of the

organization's human capital and how human capital influences organizational performance. Finally, in order to become true strategic partners, CHROs need to develop expertise in how boards operate, as well as in the business issues boards face.

References

- Boudreau, J.W. & Ramstad, P.M. (2007). *Beyond HR: The New Science of Human Capital*. Boston: Harvard Business School Publishing.
- Conger, J. A. (2009). *Boardroom realities : Building leaders across your board*. San Francisco: Jossey-Bass.
- Conger, J. A., Lawler, E. E., and Finegold, D. (2001). *Corporate boards: New strategies for adding value at the top*. San Francisco: Jossey-Bass.
- Lawler, E. E., III (2009). Boards as overseers of human capital. Directors & Boards, 33 (3), 56-59.
- Lawler, E.E., III and Boudreau, J.W. (2006). HR support for corporate boards. Human Resource Planning, 29(1), 15-24.
- Lawler, E.E., III and Boudreau, J.W. (2009). *Achieving excellence in human resources management: An assessment of human resource functions*. Palo Alto: Stanford University Press.
- Lawler, E.E., and Finegold, D.A. (2006). Who's in the boardroom and does it matter: The impact of having non-director executives attend board meetings. Organizational Dynamics, 35(1), 106-115.
- Wright, P. (2010) Strategies and Challenges of the Chief Human Resource Officer: Results of the First Annual Cornell/CAHRS Survey of CHRO's. CAHRS Working Paper, www.ilr.cornell.edu/cahrs/workingpapers.