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Mind the Gap: How Human Resources Can Become More Integral to the Corporate Boardroom Agenda

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No society can provide its members with a high quality of life unless it has effective organizations.

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It is a time-honored adage that CEOs often repeat: “People are our greatest asset”. But it is more than folk wisdom. Indeed, research has shown a linkage between superior human capital management practices and superior shareholder returns. It is estimated that the value of intangible assets in the global economy in the year 2018 alone was approximately $57.3 trillion. Chief among these intangibles is human capital. Along with the intellectual and knowledge property it creates, human capital has become the most important intangible asset that a corporation possess. Yet little time is spent on human capital issues in most corporate boardrooms.

In our research, we have discovered that boards focus on two human capital topics: executive compensation and succession. When boards take important strategic decisions, they rarely consider the overall workforce and talent management issues that are related to these decisions. The senior human resources leader, the Chief Human Resources Officer (CHRO), typically plays an advisory rather than a leadership role to the board in most corporations. They are not perceived as true strategic partners by board members. As a result, their voice has a limited input on issues facing boardrooms like talent readiness, change management, corporate governance practices, critical talents gaps in cyber-technology and AI, and board governance effectiveness.

With such narrowly focused attention, what are the potential costs to boards and their corporations? We believe they are very high. Perhaps the one that it is most visible and pronounced shows itself in CEO turnover. While CEO succession is a primary responsibility of boards, the executive pipelines of talent in many companies are remarkably shallow. In other words, there are too few internal candidates to choose from. More often than not, the internal candidates are not fully prepared in terms of the background experiences demanded by the CEO role. Their grooming is opportunistic with limited attention to addressing development needs and cultivating essential strategic and enterprise perspectives. For example, a LinkedIn study (2018) of 12,000 CEOs from across twenty countries showed that business development, sales, engineering, information technology, consulting and finance were the top first job functions of their sample. Sixty-five percent of the incoming CEOs in large corporations surveyed by Booz Allen had no experience working abroad, and eighty percent came from the same country as the location of the company headquarters (2014). Yet, the vast majority of these corporations derive a large if not the majority f their revenues globally. We would strongly suggest this neglect of global assignments in the grooming of executive talent is a product of the limited attention of boardrooms to such critical HR issues.

But there are additional potential costs. Since the CHRO is not a strategic partner with the board, investments in executive development and more broadly talent management fall to the discretion of the standing CEO who may or may not have a concern about the quality and depth of his or her talent bench. We have witnessed these investments in talent completely disappear from an organization when a new CEO steps in with little appreciation for their value.

While boards have a primary responsibility for the strategic direction of the corporation, they often overlook the talent component demanded by new strategic directions (Conger 2009; Ready, Hill and Conger 2008; Lawler and Boudreau, 2018). Yet strategic initiatives can fail to achieve their expected traction simply due to the wrong kind of talent or, worst, due to a lack of talent. With the board's narrow focus on CEO succession and compensation, talent problems in recruitment, employee branding, turnover, and engagement may not reach the board's attention until they have become serious problems for the organization. In summary, the potential costs of the HR knowledge gap in boardrooms can be very high.

What Contributes to the HR Knowledge Gap in Corporate Boardrooms?

There are many contributors to the HR knowledge gap within boardrooms. At the top of the list would be the board's historic emphasis on shareholders as their primary stakeholder. A board's main concern is shareholder returns rather than human capital issues. With the Sarbanes-Oxley act, the board's attention has been further directed towards regulatory concerns around internal accounting controls, auditing by external firms, and financial reporting. These are the dominant decision-making frames for boardrooms today…not human resources. For example, the EY Center for Board Matters highlighted these as the top priorities for boards in 2018: 1) understanding technology's impact on strategy, business models and cybersecurity, 2) anticipating and planning for geopolitical and regulatory changes, 3) aligning risk management with strategy and operating performance, 4) balancing short- and long-term capital allocation pressures from shareholders, 5) overseeing culture and talent in a time of innovation and transformation, 6) engaging with stakeholders on long-term governance and environmental and social issues, and 7) accelerating board effectiveness through composition, structure and assessments. Only one priority – overseeing culture and talent in a time of innovation and transformation – related to human resources. In a Spencer Stuart survey of corporation boardrooms (2014), the top cited issues for board attention were: 1) strategic planning, 2) mergers and acquisitions, 3) CEO succession, 4) global strategy, and 5) IT strategy. As the reader can see, human resources - with the exception of succession - is missing from the list.

A second critical contributor to the HR knowledge gap in the boardroom has been the board's composition. The vast majority of board directors of large corporations are CEOs or former CEO's. In a recent Spencer Stuart survey (2018), financial and executive leadership expertise were cited as the top two attributes in selecting a new director. CEO experience, knowledge of information technology, global expertise, marketing and digital/social media knowledge were the other experience categories considered as important background attributes. Human resources experience is missing from the list. In a recent survey of 5000 board members by the Harvard Business School, the top three areas of expertise were industry knowledge, strategy and finance/audit. Only 7 percent of the respondents choose HR/talent management as a top three area. In other words, boards do not actively seek out directors with deep HR experience. As a result, few board members bring an HR perspective to decisions.

Our experiences further suggest that many board members actually perceive themselves to be 'experts' in HR. Asked upon whom they rely for HR expertise, directors will often say the CEOs of other companies who are on their board. Yet research on evidence-based management shows that most executives are not well informed about human capital management. This state of mind creates three dilemmas. One is an under-appreciation for human resources and its implications in strategic decisions. Second, it may well explain the very narrow focus where HR is defined around CEO succession and compensation. Finally, it puts boards in a weak position when it comes to assessing and evaluating the talent strategies of the firm. They simply do not possess a solid enough foundation of HR expertise to rigorously assess.

The issue is further compounded by the historic role played by the HR leader. The one individual with HR expertise – the CHRO – is not present as a full-time board member or presence. For example, only ten percent of the boards of large U.S. corporations report that they have a former or current CHRO on their boards as a director (Lawler, 2009). CHRO's themselves report spending only ten percent of their time on corporate board issues (Wright, 2010). As we will describe, these outcomes are the product of a historic move away from insider executives as board members as well as credibility issues surrounding the HR executive. In one study assessing the degree of actual attendance (Lawler & Finegold, 2006), the CHRO 'always attends' board meetings in only 19% of the corporations studied and 'often attends' in only 22% of the corporations. This is in sharp contrast to the CFO who 'always attends' board meetings in 91% of the corporations studied and 'often attends' in 8% of the corporations. We believe that one major contributor to the CHRO's restricted presence is a perception by board directors that these executives are narrow 'personnel' experts.

Two additional contributors to the problem are the weight of history and the nature of corporate crises. Boards have a long history of focusing on CEO succession and CEO/board compensation. They have, in essence, become 'stuck' in a routine. These two topics are now the 'standard fare' or standard expectations for a board's focus. In addition, boardrooms have few or no peer benchmarks that take a more comprehensive and strategic approach to HR. Moreover, few boards have experienced an "HR failure event" that has caused a firm-wide crisis. This is in contrast to financial scandals, product failures, or poor strategic decisions that underpin most corporate failure events. These types of crises and resulting regulations have directed boardroom attention towards accounting, finance, investments, and product liabilities. To board members, HR therefore may seem like a low importance area for boardroom oversight outside of CEO succession. This may be changing however, as a result the challenges organizations are facing in moving to a world dominated by A.I. and digitalization. Increasingly, organizations have to redesign themselves and develop new talent management models in order to be effective in a rapidly changing digital world.

Finally, the move towards smaller, more independent boards has further marginalized the opportunities for HR executives to serve as board directors. Because of finance's dominant role in boardroom discussions, the CFO has become the default choice for an executive directorship beyond the CEO's. Business unit leaders who are considered as front runners to succeed the CEO are next in line leaving the HR executive completely outside the circle of potential insider candidates.

How Can Boards Effectively Address the HR Knowledge Gap?

There are a number of meaningful actions that corporate boards can undertake to address the HR knowledge gap. We describe a set of steps next.

Ensure the Presence of the CHRO or else a Director with HR Expertise at Every Board Meeting: Perhaps the simplest step to address the HR knowledge gap is the presence of an HR expert in board meetings. Like the company CFO, the CHRO should be present at every meeting. One avenue that might ensure their consistent presence would be appoint them to a formal board assignment such as a committee secretary. Another option could be as a coach to the lead director or to the board itself to assist with boardroom process performance. Later we will address what CHROs should be doing to ensure that their presence is more influential, but the simple act of having the CHRO in the boardroom is an important first step in the right direction. The alternative to this step would be to bring on to the board a director with deep HR expertise. There is no shortage of individuals in the latter category, and they could include consultants or academics with this expertise.

Establish a Human Capital Management Scorecard: All boards should operate with some form of scorecard that reports on the condition of the human capital of the corporation and how it is managed. For example, it can and should include data on management and employee turnover, recruiting, engagement and culture data, high potential talent pipelines and pools, succession for leadership and key expertise roles, and emerging talent needs and the fit with strategic initiatives. Many of these measures should be reviewed at each board meeting while others can be reviewed less frequently. During times of critical transitions, this type of scorecard data becomes particularly important as a means to assess the direct impact of new policies or practices.

Educate the Board: A relatively easy step is to offer education sessions for the board on human capital management. There is a large body of research on what constitutes effective human capital management practices. Our research suggests that most board members are not familiar with this body of knowledge and therefore need exposure to it. Only with this type of knowledge will enable board members to effectively assess HR scorecard data as well as effectively evaluate the HR practices of their company.

Establish a Human Capital Board Committee: Most board meetings have little time to hold in-depth discussions and assessments of the organization's human capital strategy. Instead the topics of CEO succession and compensation appear on the agenda at staged, though infrequent, times over a year's worth of meetings. Little else related to HR is discussed nor is there seemingly more time for HR topics. Yet the importance and complexity of human capital issues demands boardroom attention. A critical step for any board therefore is to establish a human capital board committee. Dedicated to the human capital issues, this committee can identify and assess the HR issues of relevance to the entire board. While this is a straightforward solution to the problem of finding board agenda time for HR, few boards have established such committees. For example, in one study, only 13% of boards reported that they have a human capital committee – a surprising 75% reported that they have never even considered one (Lawler, 2009). The committee's primary purpose would be to oversee the HR scorecard data, monitor the condition of the organization's human capital, and influence the human capital strategy and practices. They should set with the CEO and CHRO a comprehensive strategy for their company's human capital investments along with a set of metrics to measure the 'returns' on these investments. That said, the committee should not be engaged in 'micro-managing' the HR practices of the firm and therefore should negotiate beforehand what issues go before the board and the kinds of information that are needed to monitor these issues.

Develop 'Boardroom Presence' in the CHRO: We mentioned earlier that credibility issues often diminish the boardroom influence of many

CHROS who may be seen as simply 'personnel experts'. This perception is the product of HR executives themselves failing to demonstrate certain expressions of executive leadership behavior and lacking important background experiences. We believe that the HR executive career path to date has consistently failed to foster the attributes associated with 'boardroom presence'. As a result, HR executives are trapped in perceptions that they are best suited to a 'partner' or 'advisor' role.

So what would 'boardroom presence' look like in an HR executive? It likely manifests itself in at least five ways: 1) a sophisticated fluency about the company's strategy and its implications for the firm's human capital management, 2) in-depth experience in leading significant organizational changes – especially around leveraging HR processes and practices, 3) a compelling and articulate presentation style, 4) a confidence and ease in the presence of 'high powered' and highly accomplished individuals, and 5) a set of interpersonal skills that ensure engagement and influence with powerful others.

Let's take each of the five skill areas associated with boardroom presence and ask how would an HR executive develop these capacities? We will start with fluency around the company's strategy. The HR executive should be able to draw direct links between the strategy and the talent management requirements to achieve it. For example, we know of one CHRO who after each of his company's earnings calls with the investment community meets with his HR team to assess the implications of the call for the HR community and the company's talent strategy. CHROs should be able to link human capital metrics like 'employee engagement' to the profitability of the company. They should be able to devise sophisticated talent strategies to develop the new organizational capabilities demanded by shifts in the organization's strategic directions. As Boudreau and Ramstad (2007) and Lawler and Boudreau (2018) have argued, HR executives need to come to the boardroom with human capital metrics and decision models that guide strategic decisions based on organizational capabilities and human capital availability. Most currently do not leverage such metrics and models. As a result, they fail to have the same level of credibility and influence as the company CFO. In addition, HR executives need to have more career experiences in line roles outside of HR and in particular in market facing roles where one can see the impact of strategic decisions directly. Experience in finance and audit roles is an absolute necessity given dominance of finance in boardroom discussions. International experience is growing in importance as a background requirement for board members. Assignments in emerging markets where HR leaders can play a strategic role in global expansion are particularly attractive. Training in strategic decision-making should also be a requirement especially at the point at which an HR professional is transitioning into an executive role. Assignments to the right kinds of corporate staff roles (focused on strategic HR issues, finance and market facing assignments) can similarly provide invaluable experience. Lawler and Boudreau (2006) showed that having corporate staff groups with strategic HR expertise is directly related to the degree to which a board looks to HR for strategic help. As well, HR staff experience in human capital development, labor economics, talent supply and the cost of talent acquisition and development are determinants of the degree to which boards look to the CHRO for guidance on strategic decisions.

The second capacity…leading organizational change…is one role where HR can and should play a pivotal role, but historically it has not. This is a missed opportunity given how 'routine' major change cycles have become in most organizations. For example, it is estimated that during a typical corporate CEO's tenure of five to seven years there will be two significant change efforts facing the entire organization. Boards are now involved in these transformational efforts. As the custodian of leadership talent, HR can and should play a decisive role in such interventions.

We are aware of one global enterprise that masterfully deployed human capital processes as a *primary* lever in their massive organizational reinvention efforts. The CEO focused the company's strategy towards organic growth opportunities in technology and fast-growing marketplaces. With his HR executive, they revamped the leadership competency framework for the company to reflect requirements demanded by the new strategy. Soon training, executive education, assessments and performance reviews were focused on developing these characteristics. To build out technology innovation capabilities, the talent management strategy was revamped to recruit thousands of engineers and marketers. In the end, almost every lever associated with talent management was pulled to ensure that the human capital requirements were deeply aligned to support the new strategic direction. In other words, Human Resources played a decisive leadership role in implementing the new strategy.

Why are not more CHRO's and their teams playing a major role in leading change efforts? In part, many have not seen their full potential to play this role. They are shortsighted. For example, they may view recruitment as a more static hiring process but not as a change lever for building new capabilities and a cadre of change agents. Boardrooms and CEOs are clamoring for help with change strategies and assessing their viability. CHROs should be playing an essential role with both.

On the presentation skills side, HR executives in general need to be more adept in their communications and persuasion skills. Their careers have reinforced the need to be an 'expert'…someone with deep but specialized knowledge but at the cost of a broader vision and a deeper communications skill set. Most would benefit from extracurricular practice or coaching around presentation and influence skills. The ability to be concise and persuasive in the boardroom is critical. Because of their historic role as expertise contributors, HR executives often provide too much detail and too many options in their boardroom presentations. Their language is usually laced with HR jargon rather than the terminology of finance, strategy and marketing. When succession and compensation issues are discussed, HR executives should be leveraging such conversations as a platform to connect HR expertise to broader business issues concerning the board.

Overall, HR executives must be far more masterful in their influence skills in order to move the boardroom agenda beyond its narrow focus on CEO succession and executive compensation. They need to successfully sell the board on the important role that human capital plays in realizing strategic objectives and creating a well-functioning company culture and highly engaged workforce.

The last two 'boardroom presence' attributes are intertwined: a confidence and ease in the presence of 'high powered' and highly accomplished individuals and a set of interpersonal skills that ensure engagement and influence with powerful others. To a large degree, these are cultivated over time through a great deal of exposure to executives who model strong and constructive influence skills. As well, these attributes can be cultivated beforehand by serving on the boards of non-profits and smaller companies. So it is advisable for HR executives to join other boards when their career affords such opportunities. Some of some qualities can be learned in executive coursework on boards and through coaching and special projects. In addition, HR executives should pro-actively seek out all the appropriate opportunities to network with board members starting with a board member's recruitment to the board.

One of the most effective ways to achieve strong relationships in the boardroom is to play a coaching role with the board itself. We are aware of several CHROs who coach the lead director or board chair and provide performance feedback on the effectiveness of the board as well as individual members. This coaching responsibility has built deeper confidence in the CHRO and in turn led to greater receptivity to their advice across a broader spectrum of boardroom topics.

Conclusion

Corporate boardrooms possess 'tunnel vision' when it comes to the human capital issues of the corporations they oversee. Their historic HR focus on CEO succession and executive compensation is too narrow and constraining. Board members must recognize that they have a vital role to play in providing both oversight and leadership around the human capital investments of the firms they guide. The critical stumbling block to achieving this responsibility is the sheer lack of HR knowledge in many boardrooms. In addition, HR executives must upgrade their skill and knowledge sets. They are perceived by many board members as tacticians - process oriented individuals lacking the competence of strategic business leaders.

In this chapter, we have outlined several steps that boards and HR executives need to undertake to remedy these gaps. They include: 1) ensuring the presence of the CHRO or a director with HR expertise at every board meeting, 2) establishing a human capital scorecard for the board, 3) holding education sessions for the board on human capital management, 4) establishing a human capital board committee, and 5) developing greater ‘boardroom presence’ in the CHRO themselves.

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