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Human Resource Management: The Role of Boards

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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 is it more than talk? Probably not. Research confirms the adage showing a linkage between superior human capital management practices and superior organizational performance (Lawler, 2008). In addition, talent is a major cost in many organizations, particularly those that are labor or intellect intensive, where it can account for seventy or eighty percent of an organization’s costs. Further, it is estimated that the value of intangible assets in the US economy in 2012 was approximately $14.5 trillion. Chief among these intangibles is human capital.

Along with the intellectual and knowledge property they create, human capital has become the most important intangible asset that most corporations possess. Yet surprisingly little corporate boardroom time is spent on human capital issues. Even when boards take important strategic decisions, they rarely consider the overall workforce and talent management issues that are relevant to these decisions. In essence, boards are ‘missing in action’ when it comes to monitoring human capital.

Recent research shows that boards primarily focus on two human capital topics: executive compensation and CEO succession (Conger, 2009; Lawler & Boudreau, 2015). When it comes to boards monitoring most of the talent in organizations, its condition and how it is managed, the situation is very different. Research suggests that boards lack both the HR information and expertise and consistently fail to get them from outside experts, their human resource systems, and HR executives (Lawler & Boudreau, 2015).

Human Resources Information Available to Boards

When asked if they receive sufficient information to carry out their board responsibilities, 90 percent of board members in large corporations say they do (Lawler, 2009). But their assessments concerning how much data they receive about their companies' assets and operations 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 relevant information. Ironically, this does not seem to concern them. As noted, overall they are comfortable with the information they receive.

When board members are asked whether the board receives specific kinds of information about human capital, the results are mixed. As can be seen in Table 1, board members feel that they get succession planning data for most management positions those board members that don't get it say that they should. This response contrasts with our personal experiences with boards. We often observe that this planning data does not end up mirroring the actual candidates when succession does occur. So while boards feel they receive adequate information on the slate of succession candidates, it may not be the truly relevant information. The situation is also quite different with respect to succession planning for technical positions, metrics on employee turnover and recruiting success, and attitude survey data. In these cases, only about half of the boards get such information, although those that do not typically get it say that they should.

There is no obvious explanation as to why many boards don't get information about human capital management even though their members feel that they should. Perhaps management is hesitant to report this data because they fear the board may end up micro-managing. Or perhaps 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 this kind of HR data, it is difficult for board members to play an informed role in monitoring the human capital management programs and the HR practices of their firms, not to mention make informed decisions about their organization's strategy, capabilities and performance.

Human Resources Expertise on the Board

Critical to effective decision-making with respect to an organization's human capital is board expertise in human capital management. One good indicator of the presence of this expertise is whether board members have worked in HR related jobs. Survey results reveal that most boards have no members who have a background in HR management (Lawler & Boudreau, 2015). When asked if their boards have either HR VP's, HR consultants or university faculty members with expertise in HR, board members typically report that they have none of them (see Table 2). Overall, only about one corporate board in five has a director who has expertise in human capital management.

When asked whom they rely on for expert knowledge pertaining to human capital management, the most frequent survey response by board members is other board members. This is surprising given the fact that few boards actually have any experts on them. They do report that they rely on corporate HR staff members as a credible and potentially valuable external 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.

Monitoring Human Resources Effectiveness

Board members are aware that they are not particularly effective at monitoring how the workforce is managed. When asked to rate a number of areas of board effectiveness ranging from long term strategy development to assuring accurate financial reporting, they rate monitoring the firm's management of the workforce as their lowest in effectiveness. In one survey, slightly less than half said they are effective at this, whereas almost ninety percent said they are effective when it comes to monitoring their firm's financial performance (Lawler & Boudreau, 2006; Lawler, 2009).

Sources of Gap

What are the contributors to this HR information and knowledge gap in boardrooms? At the top of the list is the board's historic emphasis on shareholders as their primary stakeholders. The main concern of most corporate boards is short-term financial returns. With the Sarbanes-Oxley act, board attention has been further directed toward regulatory concerns around internal accounting controls, auditing by external firms, and financial reporting. In the most recent Spencer Stuart survey of corporate 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. Human resources - with the exception of CEO succession - is missing from this list.

A second critical contributor to the HR information and knowledge gap is the failure of boards to recognize the need for members with HR expertise. In a recent Spencer Stuart survey (2014), financial and industry expertise were cited as the two most important 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. This is most likely why, as noted earlier, so few board members bring an HR perspective to decisions.

Our experiences suggest that many board members perceive themselves to be 'experts' in HR despite their lack of experience in an HR role. Asked upon whom they rely upon for HR expertise, directors will often say the CEOs of other companies who are on their board. Yet, the 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 of human resources management and its critical role in strategic decisions. Second, it may well explain why boards focus solely on CEO succession and compensation. Finally, it ensures that boards are in a weak position when it comes to assessing and evaluating the talent strategies of the firm. From our experience, they simply do not possess a solid enough foundation of HR expertise to rigorously assess human capital decisions. The lack of board expertise in human resource management is further compounded by the historic role played by HR leaders. The Chief Human Resources Officer (CHRO) usually is not a full time corporate board member or even present in board meetings as an advisory resource. 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). Both of these outcomes are the product of a historic move away from having insider executives as board members as well as credibility issues surrounding HR executives.

In one study assessing the degree of actual board attendance (Lawler & Finegold, 2006), the CHRO 'always attends' board meetings in only 19% of the corporations studied and 'often attends' in only an additional 22% of the corporations. This is in 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 the major contributor to the CHRO's restricted presence is the perception by board members that HR executives are narrow 'personnel' experts, not 'business executives.' As many studies have shown, this is often true, many CHRO's have not had line management experience and little experience in finance, strategy, and marketing. As a result of their lack of such experience, the CHRO may not be able to be a significant contributor to many business decisions (Lawler & Boudreau, 2015).

Additional contributors to the lack of HR information and expertise in boardrooms are history and the nature of corporate crises. Boards now 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, there are few examples of corporations taking a corporate wide approach to an HR failure. Few boards have experienced an "HR systemic 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. HR may therefore seem like a "low risk" area except for CEO succession.

What Price Do Boards Pay for the HR Gap?

What are the risks and costs to boards and their corporations of their failure to focus on talent? We believe they are very high. Perhaps the one that is most visible involves CEO and senior executive talent. While CEO succession is a primary focus of boards, we find that the executive pipelines of talent in many companies are remarkably shallow. Many candidates lack the important background experiences that are necessary for CEO leadership. Their grooming is often opportunistic with limited attention to addressing their development needs. For example, 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 (PwC, 2014). Yet, the vast majority of these corporations derive a large if not the majority of their revenues globally. This neglect of global assignments in the grooming of executive talent is a likely product of the limited attention of boards to talent management.

There are additional potential costs of boards not focusing on HR and talent. Investments in talent management often fall to the discretion of the CEO and other executives who may or may not have a long-term focus and concern about the quality and depth of their talent bench. Strategic investments in development and talent management are therefore dependent upon the interests of the CEO, which may be primarily short term. As a result, effective talent processes and investments often come and go rather than become institutionalized. They may even completely disappear when a new CEO or senior executive steps in.

When boards develop and set the strategic directions of corporations, they often overlook the talent component of strategy. Yet new strategic initiatives can and often do fail to achieve their expected results simply due to a lack of the right talent or motivation. 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 costs of the HR knowledge gap in boardrooms can be and often is very high.

How Boards Can Address Their HR Effectiveness Gap

Research does indicate that boards do feel their performance in the human capital areas needs to be improved. Some of this may reflect the fact that human capital is becoming increasingly important. During the "War for Talent" of the late 1990s, many boards were surprised by the talent crisis since their membership and structure was not targeted toward dealing with human capital issues. That said, for some organizations, human capital may not be a very important asset. For these companies, the lack of attention to human capital is not a problem, and they most likely do not need to change. But we suspect this is a minority of organizations and that the number is decreasing. So what about companies where human capital truly is one of the most important assets of the company? What do they need to do? The following are actions that can be taken that will position human resource management where it should be:

Ensure the Presence of the CHRO and/or a Director with HR Expertise at Every Board Meeting: Perhaps the simplest step to take that will address the HR knowledge gap is having an HR expert in every board meeting. Like the company's CFO, the CHRO should be present at every meeting. They might be assigned as a committee secretary or play an ad hoc role like the CFO. Another option is as a coach to the lead director or as a facilitator to the board itself on its boardroom performance. Although these roles do get the CHRO in the boardroom, some of them may conflict with the role of being an expert and advisor on the organization's HR management issues. 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 a step in the right direction. The alternative is to bring on to the board a director who possesses deep HR expertise. There is no shortage of individuals with HR expertise, including consultants and academics, who are available and able to perform this role.

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. It can and should include data on management and employee turnover, recruiting, how often the executive succession plan actually worked to plan, employee engagement and culture, high potential talent pipelines and pools, succession for leadership and key expertise roles, and emerging talent needs and the fit with strategic initiatives (Conger, 2009; Lawler & Worley, 2011). Many of these measures should be reviewed at each board meeting while others can be reviewed less frequently. Their relationship to organizational effectiveness should be monitored and analyzed in order to be sure they are the right measures. During times of critical transitions, this type of scorecard data is particularly important as a means to assess the direct impact of new policies and practices. In addition, board members could be provided opportunities to meet with employees at all levels to discuss human resources issues.

Establish quadruple bottom line public reporting: An effective way to reduce the focus of boards on financial performance is to broaden what corporations report on. A growing number of major corporations (e.g. Unilever) are now reporting on their triple bottom line performance (Mohrman, O'Toole, & Lawler, 2015), which is how they perform in the financial, social and environmental areas. A number of major corporations are now using the Global Reporting Initiative approach (Eccles & Serafeim, 2015). This is a good step in the right direction, but it does not report separately on the condition of an organization's human capital. This needs to be part of an organization's profile so that the board will focus attention on it. Boudreau and Ramstad (2007) and Lawler and Boudreau (2009) have argued that 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. As a result, they fail to have the same level of credibility and influence as the CFO.

Educate the Board: As part of the required development experience, board members should be educated in human capital management. There is an enormous amount of research evidence about what constitutes good human capital management and what human resources practices are effective and ineffective. Most board members are not familiar with this wealth of data, 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. Only with this type of knowledge can board members effectively assess HR scorecard data as well as effectively evaluate the HR and management practices of their company.

Establish a Human Capital Board Committee: As already mentioned, the majority of board meetings devote little time to holding in-depth discussions and assessments of the organization's human capital strategy and organizational effectiveness. Given the very full agendas of boards, it is difficult for them to find the necessary time. The topics of CEO succession and compensation are on the agenda, but typically the focus is only on promotions and stock grants, not on organization-wide talent management. Yet the importance and complexity of human capital issues and organizational effectiveness issues demands in depth boardroom attention.

An effective step for boards to take is to establish a human capital board committee beyond the committee devoted to the HR issues of succession and compensation. Dedicated to human capital issues, this committee would identify and assess corporate HR issues that are relevant to organizational performance. While this is a straightforward and effective 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 should be to oversee the HR scorecard data, monitor the condition of the organization's human capital and the effectiveness of the human capital strategy and practices. It 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, as per the Committee's mandate.

Develop 'Boardroom Presence' in the CHRO: We mentioned earlier that credibility issues often diminish the boardroom influence of many CHROs who are seen as simply 'personnel experts', not business experts. Frequently, this perception is the product of HR executives themselves failing to demonstrate key leadership behaviors, business knowledge, and lacking important business background experiences. The typical HR executive career path rarely facilitates the development of the attributes associated with ‘boardroom presence’ and knowledge. As a result, HR executives are trapped in a ‘partner’ or ‘consultant’ frame not in an executive leadership frame when it comes to their boardroom roles, not to mention their overall role in corporations.

Fluency with the company’s strategy and structure means that an HR executive should be able to draw direct links between an organization’s strategy and the talent management requirements to implement it. They should be able to devise sophisticated talent strategies to develop the new organizational capabilities demanded by shifts in the organization’s strategic directions and structure.

So what would a ‘boardroom presence’ look like in an HR executive? It would manifest itself in five ways: 1) a sophisticated fluency about the company’s business strategy and implications for the firm’s structure and human capital management, 2) in-depth expertise about leading organizational change – 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 and often egotistical individuals, and 5) a set of interpersonal skills that ensure engagement and influence with powerful others.

Capacity Development

Each of the five skill areas associated with a boardroom presence require a development process. In order to develop strategic business skills, HR executives need to have 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. 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 and market facing assignments) can similarly provide invaluable experience. Lawler and Boudreau (2006) found 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. HR staff knowledge and 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 a 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 (Worley, Williams, & Lawler, 2014). 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 often involved in these transformational efforts. As the expert on leadership talent, HR can and should play a decisive role in such interventions, both with respect to their design and their implementation. All too often, change efforts fail because they do not manage talent effectively.

Why are not more CHRO's and their teams playing an important role in leading change efforts? A major reason is that they do not focus on creating human resource systems that are designed to facilitate change (Worley, Williams, & Lawler, 2014). They see training as simply training, and they do not see compensation, performance reviews, selection and recruiting as crucial levers in change efforts. Recruitment is not used 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 in helping them build organizations that are agile and able to continuously change.

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 a subject matter 'expert'—someone with deep specialized knowledge, not someone with a broad vision of organizational effectiveness and the global business environment. Most would benefit from practice and coaching that is focused on presentation and influence skills. The ability to be concise, persuasive and business relevant in the boardroom is critical. Because of their historic role as HR expertise contributors, HR executives often provide too much detail and too little business relevance, e.g. risks and potential business impacts. HR executives need to be far more masterful in their influence skills to move the boardroom agenda beyond a narrow focus on CEO succession and executive compensation. They need to successfully sell the board on the many roles that human capital does and can play in realizing strategic ambitions and maintaining a well-functioning company culture.

The last two 'boardroom presence' attributes are 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. One way to develop them over time is through exposure to "role model" executives that possess strong and constructive influence skills. These attributes can also be gained by sitting on the boards of non-profits and smaller companies. Some of these qualities can be learned in executive coursework on boards and through coaching.

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HR executives should pro-actively seek out all the appropriate opportunities to network with board members starting with the board member's recruitment and introduction to the board. For example, they should play the lead role in on-boarding programs for new board members.

An essential dimension of such programs should include an in depth overview of the senior leadership talent (succession, capabilities, development areas), the organization's human capital strategy, and the demands and challenges this strategy is facing. One of the most effective ways for CHROs to achieve strong relationships in the boardroom is to play a coaching role with the board itself. CHROs can 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 can build confidence among board members in the CHRO and in turn lead to greater receptivity to their advice across a broad spectrum of boardroom topics.

Conclusion

In order for most boards to be effective in dealing with human capital issues, major changes are needed. They need to greatly increase their information, knowledge, and focus on human capital issues (Lawler, 2011). This will not be an easy change since many board members lack 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 fearing the board will become overly directive and prone to micro-management. Boardroom meeting agendas are often heavily scheduled with presentations on strategy and finance. A new topic area such as the company human capital strategy will compete with the limited airtime that boards have in their meetings.

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. Quite the contrary, it is a matter of creating a potential competitive advantage by better organizing the deployment of and investment in human capital than peer 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.

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TABLE 1. INFORMATION RECEIVED

	Percentages			
	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

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