

CURRENT PRACTICES William G. Stopper, Editor

Seven Questions Boards Should Ask Chief HR Officers

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Some boards have their Chief HR Officer (CHRO) regularly report to them about major HR issues, typically through the governance and compensation committees, about succession planning or officer compensation issues. Many board members do not expect regular interaction beyond those issues. From all indications, fewer yet view the HR function from a truly strategic perspective and the CHRO as a strategic business partner. With a firm's human and intellectual capital being increasingly viewed as the most important sources of competitive advantage, and leadership development and retention becoming a major challenge because of dramatic demographic shifts coming over the next decade, the HR function deserves closer attention by boards. HR does want to claim a greater role in the corporate governance process, as explained in the Human Resource Planning Society's 2003 book, *Restoring Trust: HR's Role in Corporate Governance* (WG Stopper (ed.), NY: HRPS). Several questions can therefore be asked the CHRO, preferably both in writing and in face-to-face conversations, as part of a regular board meeting at least once per year.

According to the Human Resource Institute's 2005 leadership survey of over 1,600 companies on behalf of the American Management Association (AMA), and Hewitt Associates' 2005 national survey, *How the Top 20 Companies Grow Great*

Leaders, the most proactive boards are going much further than the historic norm. Boards are increasingly finding ways to shape and guide some of the most critical HR activities beyond CEO succession planning that drive long-term performance. A number of other HR-related issues require attention as well. Based on conversations with several senior HR executives, HR consultants, and several years of personal experience as a board

that the unique skills and abilities of each senior leadership team member, including their collective gaps and overlaps, be known. How these can be identified becomes an important corollary question. It also means that the emergent issues and challenges facing the firm are known, discussed, and agreed upon. If there are mismatches between skill sets and issues, then the clear expectation must be that plans are created and executed for eliminating the gaps.

3. *How deep is the firm's leadership bench strength, and how is this regularly assessed?* Directors are increasingly probing management about this question for a variety of reasons, with the growing competition for key talent being a major one. This involvement may even take the form of hands-on, one-on-one mentoring by individual board members of top talent. The question is even more pressing, however, as firms globalize and entirely new skill sets and greater diversity within the top management talent pool shifts in response. Directors need to

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member, here are at least seven of the most important "people-related" questions every CHRO should be expected to answer:

1. *How strategic is the HR function in terms of its core functions' linkage to specific business performance drivers?* In other words, is HR viewed as a strategic business partner that creates shareholder value just as the finance, marketing, R&D, operations, and logistics functions are? HR should be viewed not as a "cost center," but instead as an important source of business performance and an investment target just as every other part of the value creation chain is. Answering this question requires HR to have meaningful business performance benchmarks and metrics to gauge its relative contribution to overall firm performance. HR's own goals and strategies will need to be tightly aligned and support other business goals and strategies.

2. *How are the skill sets of the firm's leadership matched against the emergent strategic issues and challenges facing it?* Answering this question requires, of course,

know that top management bench strength is deep and broad across those areas most critical to long-term performance. They also need to know that sophisticated and proven leadership assessment and development processes are in place, fully supported in terms of resources and executive involvement, and are relied upon by senior management in making promotions and assignments.

4. *What is the succession plan and how well is the succession planning process functioning?* This is the traditional domain of most boards and remains an area of great concern, particularly in periods of rapid change and executive turnover. Management must be prepared to share the succession plan fully with directors. Just as importantly, directors need to focus on the process itself in terms of its ability to identify talent, develop those individuals, and then function in an orderly way when it is time for leadership replacement across multiple key positions, not just that of the CEO. HR must therefore be willing and able to have the succession

planning process reviewed and its logic thoroughly discussed by directors to assure its operational effectiveness.

5. *How can the current state of the firm's culture best be characterized?* Boards also need to be able to gauge the "tone at the top" of the organization all the way down to the shop floor or sales counter. The challenge is to understand how truly engaged employees are with the company's activities, vision, and goals. Do employees see themselves as "owners" of what's going on? How does management know in terms of the cultural assessment processes used, and can any results be periodically presented to the board? This information must be used to create programs and processes that build engagement and commitment and positive attitudes because these qualities are important elements in the firm's overall resiliency during times of rapid change and stress.

6. *What is the firm's strategy for assuring meaningful cultural, racial, and gender diversity within critical management and leadership positions?* This question concerns more than EEO compliance policies and practices. Boards obviously view it appropriate to inquire regularly about the effectiveness of such policies and practices. However, it means that directors must also feel confident that senior managers value and actively seek the diversity essential for operating in demographically shifting markets, even more so when those markets are global. Directors must feel confident that effective HR practices are in place for attracting, developing, and retaining that diversity. It is good for business, legal and regulatory issues aside.

7. *Are the firm's core values and ethical standards articulated, accepted, and are there effective compliance processes in place for assuring that ethical behaviors match expectations?* Clearly, living with Sarbanes-Oxley (SOX) has forced firms to answer this question many more times than they may desire these days. Nonetheless, the larger question is not whether the right compliance practices such as "whistle-blower" hotlines are in place, but rather whether employees and leaders actually embrace those values and beliefs. How can this be known? The goal for

directors must be to know that those practices work by having HR report on any exceptions and violations of those practices, how these were dealt with by management, and what remedial actions were taken afterward.

This set of questions is not exhaustive, but these seven do provide the basis for a meaningful interaction with a CHRO. They also provide a foundation for exploring other HR-related topics over time. Some boards and managers may feel that such questions meddle too deeply within so specific a functional area. Given the growing importance of the "people dimension" for sustaining business performance, however, boards not used to such interactions will still want to discuss with management how such questions can best be explored without the perception of undue involvement. With board meetings already lasting longer, the time allotted for new topics is also limited. Nonetheless, the CHRO should be minimally asked to provide well-presented summary reports regularly, with at least one formal presentation each year to full boards and their subcommittees. An organization's human and intellectual capital must equally be the concerns of the board as major demographic shifts accelerate within a dynamic global economy.