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CHROs: An Underutilized Resource for Corporate Boards

ABSTRACT

Chief Human Resources Officers (CHROs) represent an untapped resource regarding corporate governance, which could add significant effectiveness to many corporate boards. The strongest CHROs, by virtue of their strategic view of inter-related issues across the breadth of the enterprise and their deep knowledge and understanding of all aspects of talent would add substantially to the dialogue at the board level. Outstanding CHROs understand all aspects of how companies work and interact, while often being a key, guiding hand when major transformations are taking place involving all manner of change—from significant acquisitions to layoffs. They understand the implications of cultural change and how to keep the company on track to a desired outcome.

Superior human resources skills alone are not enough to make for a strong board candidate, while at the same time, not all companies' challenges and priorities would indicate that a CHRO would be the best choice as the next board member. There also remains a perception among many CEOs and boards that HR is not as strong a function as other C-suite roles. There is still a widespread view that the "standard" CHRO is simply not strong enough to be considered a strategic contributor, let alone a member of a board of directors.

With the above in mind, we noted the significant percentage of CHROs who held or have held board seats are also Fellows of the National Academy of Human Resources (NAHR). We wondered what was it about these Fellows that got them identified as a candidate and appointed to Board roles. Why did the companies select them, and what made them effective board members? So we partnered with NAHR to see what we could learn, and the results are presented here.

BACKGROUND

We met in person or by telephone with 26 Fellows of the National Academy of Human Resources (NAHR) who have board experience a long with 10 Fellows who are currently seeking board roles. In addition to the NAHR Fellows, we spoke to 15 non-CHROs, including board chairs, nominations and governance committee chairs, and other independent directors who have interacted directly with the CHROs on their boards.

In addition, we incorporated our per-

sonal observations gained through recruiting experience, CHRO recruiting experience, and experience serving as a CHRO with four different organizations, both public and private.

The interview questions aimed at answering the following:

- When and why have boards considered CHROs?
- What made CHRO candidates attractive and how were CHRO candidates identified?
- How do we build the business case

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PRODUCED BY



WRITTEN BY

Jeff Hodge and Bob Lambert

HR PEOPLE + STRATEGY STAFF

EXECUTIVE DIRECTOR

Lisa Connell

MANAGING EDITOR

Mary Barnes

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for more CHRO directors?

- How do we get the word out that many CHROs are ready and more than able to serve on boards?
- How should more CHROs get ready for opportunities for board roles?

INITIAL OBSERVATIONS AND CONCLUSIONS

1. When and Why Have Boards Considered CHROs?

The dominant response to this question was that the companies that selected a CHRO for their board were often going through significant transformation. A key implication, both stated and implied, was that the CHRO was well positioned to assess the risk implications of cultural change, as well as to weigh in on the best approaches to effect lasting, positive cultural change. These transformations took many forms, but those most often noted were as follows:

- Spin-offs from larger entities where the board recognized the strategic importance of talent and the ability to align strategy, people, and execution. Often these spin-offs had significant labor or other talent-specific issues.
- Companies emerging from bankruptcy that had not focused on “people issues” and in need of major restructuring or where the bankruptcy judge/creditor committee wanted an HR executive on the board.
- Companies facing significant economic, legal, or other challenges in need of significant organizational change.
- An acquisition of significant size, resulting in critical organizational change challenges, including cultural integration considerations.
- Companies evolving from private entities to public entities.
- Family- or closely-held companies needing a board member attuned to cul-

tural implications.

We also noted that those companies that had a sophisticated approach to identifying the types of board members that would be added in the future, including the development of defined skill sets required for future governance matters along with an annual review of board composition, were more likely to consider a CHRO. This was particularly evident where the following were significant considerations for the board:

- Succession planning and talent management
- Executive compensation
- Complex labor relations challenges
- Diversity concerns

Several instances were noted where companies that sold HR-oriented products or services were very interested in having a CHRO as a board member or advisory board member. Both product design input and “door opening” were referenced as key attributes for the CHRO director.

Finally, those companies where the board or CEO had prior experience having a CHRO on the board were very inclined to add new CHROs when current CHRO board members retired or to add CHROs to new boards that they were appointed to.

2. What Made CHRO Candidates Attractive and How Were CHRO Candidates Identified?

CHROs, for the most part, do not get on boards based on their HR skills alone. Over and over, we heard that it is the combination of HR skills and “exceptional business mindedness” that made someone a strong candidate. Strategic human resource capabilities, including executive compensation, are expected skills in any CHRO. CHRO board mem-



bers contribute with a unique lens, but must have significant breadth beyond HR to be effective in board roles.

Given that boards have most often considered CHROs when there is significant change at their companies, it is not surprising that the people we interviewed often referenced large-scale organizational change and transformation experience as having been very important in their candidate selections. Some examples included experience with:

- Building new management teams, including significant succession management experience
- Going to multi-channel/digital distribution or other challenging business structure changes
- Changing market forces in regulated industries
- Implementing significant technology change
- Integrating major acquisitions
- Managing complex labor issues
- Demanding executive compensation matters, including implementing major overhauls to executive compensation plans or integrating compensation

plans after acquisitions

- Coaching a new CEO

Understandably, board members often commented that the CHRO candidate was not perceived as a “typical” CHRO. They had much more business breadth than the boards expected [they would]. Specific references were made to including the CHRO director in IPO roadshows, being candidates to chair the board, and, ultimately, being people who were candid, curious, and creative. They do not hold back and they are willing to “call it as they see it” in a very effective way.

A related point was the CHROs appointed to boards were often given strong consideration because they had other, non-HR experiences. Some had sales and marketing experience, others had government relations experience, and a few had P&L responsibility, which was often deemed as highly positive.

Approximately 75 percent of the CHROs on boards obtained their seats when their networks overlapped with a board search process conducted directly by a board. Executive search firms iden-

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tified the remainder, with the majority of those candidates being diverse.

In any case, there were variations on a theme as expressed by one board member that “preparedness met opportunity.” There was quite a variety of contact points cited with some of the most frequent quotes are as follows:

- My general management job got me additional visibility.
- I was recommended by a former CFO colleague.
- I was recommended by an academic colleague.
- I was recommended by a current board member of my company.
- I was coaching the CEO.
- I began as an advisory board member.
- I got noticed in my role as a business school advisory board member.
- I met someone at a conference.
- I knew the family that controlled the company.
- In the course of a board interview, I met a board member who steered me to one of his other boards.
- I was speaking at a conference on total rewards and got noticed by a company with an HR product.
- I was seen in action in a significant nonprofit or industry association board role.
- I was recommended by a CHRO who did not have capacity.
- I was recommended by a colleague (non-CHRO) who did not have the capacity.

In every case, boards that selected CHROs mentioned that they were extremely pleased with the contributions that the new directors had made, and in virtually every case, they also commented that the contribution was well beyond the expectations—and well beyond human resources matters.

3. How Do We Build the Business Case for More CHRO Directors?

You can look at almost any organization and there are generally only three people who have the “helicopter” panoramic view of the entire corporation: the chief executive officer (CEO), the chief financial officer (CFO), and the chief human resources officer (CHRO). The CFO allocates and manages financial capital and the CHRO manages human capital across the whole portfolio of business segments and functions. Accordingly, they are well positioned to understand how the levers work and the impact of decisions—a skill which is very relevant to a board role.

The CHRO has experience providing service across the full spectrum of the management team and can take a holistic view. The best CHROs operate as stewards of the business, proceeding to collaborative solutions with credibility and discretion. They are exceptional listeners and experts at working horizontally across the enterprise.

CHROs also rarely have direct line authority over the business, so they have learned to lead and manage through influence, seeing things from the other person’s perspective.

CHROs also understand the delicate balance between governing and managing. They provide a balanced view on business issues and talent and have the ability to meet people where they are, deliver advice or a difficult message in a way that will be heard, and give people the incentive and opportunity to “own it” and drive it forward.

As one interviewee suggested, “HR equips a person to play the board role because throughout a corporate career you are not a line manager. You do not necessarily have direct authority, so you have to earn your influence and pull people

together and convince them. Those are the kind of skills that you need to have when you pull a diverse board together. You help them with a direction, influence management and get on with it.”

From private equity-backed portfolio companies to those listed on the Fortune 500, investors and CEOs consistently point to the quality of their talent as the key driver of their success or conversely the biggest obstacle to growth that they face. This is particularly evident in organizations facing major change and was cited by many board members as a consideration regarding the backgrounds they sought in bringing on new directors.

The executive with the most direct responsibility for talent and talent strategy, along with a front row seat when change is significant, is the CHRO.

In our conversations with board members, CHRO Board members were singled out for many contributions, including the following:

- The CHRO Board member, having participated in several CEO searches and transitions in his career, was extremely effective in helping the board lead a critical CEO search.

- It is very hard to talk about CEO succession when it is not front a center. CHROs are very good at getting the dialogue on the table without it being threatening.

- A CHRO is uniquely positioned to evaluate the CEO beyond the mechanics of the numbers. They can add significant range to the overall evaluation. For example, a CHRO will weigh in as to whether the CEO is converting talent strategy into action and comment on the overall team effectiveness level.

- The CHRO is a strong asset when it comes to succession planning for the C-suite and their teams. In several cas-

es, the CHRO Board member provides leadership for board retreats focused on talent.

A CHRO board member is uniquely positioned to contribute to the discussion at the board level regarding key talent risks and opportunities. Given the talent imperative across all industries, it is not surprising that, as one board chair put it, “Having a CHRO on the board is a strategic advantage for the company.”

4. How Do We Get the Word Out that Many CHROs Are Ready and Able to Serve on Boards?

To increase the numbers (and quality) of CHROs on boards, CEOs and boards need to better understand the value CHROs bring. We are going up against deeply held beliefs and decades of perceptions. This should not be just about getting CHROs on boards, but also about getting the best CHROs on the right boards.

Painfully true, but many CEOs and boards today still have not experienced truly great HR. We see this every day in our CHRO search practice. The evidence is overwhelming. However, and here is a bit of good news, it is getting better, slowly.

Through the efforts of organizations like NAHR, the HR Policy Association, the Society for Human Resources Management (SHRM), and others, the bar can—and will be—raised.

As the HR function transforms and demands more of itself, thereby producing more board-ready CHROs, it is time to get the word out that many are ready to serve. Some possible approaches:

CEOs and boards should identify CEO/board forums where the CHRO/director topic can be discussed:

- National Association of Corporate

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Directors (NACD), national and local chapters

- G100
- Association for Corporate Growth (ACG)
- The Forum for Corporate Directors (FCD)
- The Conference Board

Identify opportunities to be quoted in national publications:

- *Wall Street Journal* (WSJ)
- *Fortune*
- *New York Times*
- *Business Week*
- *Forbes*

Identify and publish articles in academic and governance press:

- *Harvard Business Review* (HBR)
- *Sloan Management Review*
- NACD
- Academic human resources journals (e.g., *Human Resources Management Journal*)
- *HR Executive* magazine
- *Workforce* magazine

For NAHR Fellows and other CHROs:

- Conduct regional panels of CHROs on boards along with other non-CHRO board members discussing the CHRO board member resource

- Include executive search professionals who work in the field and other governance consultants in the regional panels and audiences

5. How Can More CHROs Get Ready for Board Roles?

The key to getting ready for a board role will be for the potential CHRO candidate to show that they are deeply involved in and fully understand the business they are in, and when the time comes, be articulate about the challenges the company faces when they are interviewed by a potential board. The CHRO will need to demonstrate their business acumen through an explanation of their company's business model and through the questions they address to the interview panel.

The most frequently cited skill set that CHROs on boards wish they had more of going in was financial acumen. Fundamentally, the CHRO board member will need to understand the compa-

ny's financials, how the business makes money, and the key business and financial drivers. In a board role, you need to understand the deliberations of all business and financial discussions, including the Audit Committee even if the CHRO board member is not on that committee. The CHRO board member will be heavily involved in weighing in and voting on acquisitions and divestitures and other major financial decisions, and there will be myriad banking and legal considerations with financial ramifications. The more financial skills that a candidate can develop, the better.

Experienced CHROs on boards also commented that a key for them had been their heavy involvement with boards at their own companies. Comments referenced the following as suggestions for preparing to be on a board:

- Work closely with the board on strategic talent management as well as succession and workforce planning.
- Get involved in board recruiting.
- Stay involved with the board in CEO recruiting.
- Lead executive compensation with the board compensation committee (self-assess—if not a strong suit, make it one).
- Be a sounding board for the CEO's presentations to the board.
- Contribute the full board and board committees on topics and perspectives beyond those related to HR functions.

As noted earlier, many successful CHRO board candidates stood out from the crowd by having had significant non-HR responsibilities. If possible, add to your resume a non-HR role. Examples and suggestions included the following:

- Several had marketing, branding, or corporate affairs experience.
- Several had run the pension invest-

ment portfolio. One CHRO got extra support by having an over-funded plan.

- A future CEO of a company (heir apparent) was asked to move from an operating role to be CHRO (for the last seven years).
- Six CHRO board members had P&L experience, including a \$3B division.
- One CHRO did a rotation through finance.
- One CHRO ran manufacturing.
- Several pointed to volunteering to lead global initiatives as having been extremely helpful.
- Frequent comments suggested, “Apply for big challenges in your career.”
- One CHRO offered up that in hindsight he would have stepped up to lead more acquisitions.

Other steps that CHRO board candidates can take include the following:

- Get board experience at your own company by appointment to a joint venture board.
- Make sure you are working for a CEO who values HR.
- Network with the search firms, making sure they are aware of your interest.
- Cultivate your relationships within your industry; subject to potential conflicts, it is easier to get appointed to environments where you have relevant experience.
- Get exposure to private equity firms.
- Prepare your resume throughout your career (it will be difficult to remember all your roles and dates years later) and make sure there are no surprises on social media.
- Join and lead nonprofit boards.

Finally, as one experienced, CHRO serving on multiple boards said, “Don't wait until you retire to get ready!” ■■

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About the Authors

Jeff Hodge, a partner at Bialla Partners, has conducted board of director and C-Suite search assignments for more than three decades, working with leading companies in most industries from the Fortune 50 to private equity-backed portfolio companies.

In addition to his search work, Jeff consults with leading companies to assist in the identification of board roles for key senior management executives. He leads the firm's Board Search Development Practice which focuses on matching outstanding, succession-level executives with targeted potential board roles through Bialla's network of contacts and proprietary database and analytic tools.

Prior to joining Bialla, Jeff led SpencerStuarts west coast operations, the Western Region of Heidrick & Struggles and was the founder of his own firm, Hodge Partners, which later became part of Diversified Search, where he served as vice chairman. Jeff was also a founding director of the National Association of Corporate Directors (NACD), Northern California Chapter and a board member of the Association of Executive Search Consultants. He can be reached at jeff@bialla.com.

Robert Lambert serves as managing partner for Allegis Partners' Global Human Resources practice where he identifies exceptional talent for board and executive-level roles across a wide range of corporate functions and industries around the world. Bob has built and advised a wide variety of organizations as both an operating executive and as a management consultant.

Over the past 30 years, he has served complex global organizations as well as smaller companies—publically-traded, privately-held and PE backed—helping them to shape their futures and meet the challenges they are confronting.

Prior to Allegis Partners, Bob served clients as a managing partner with Heidrick & Struggles International and CTPartners. In addition to his executive search service, Bob held executive-level and CHRO positions with PepsiCo, Stride Rite, Macy's, REI, New Century, and Patagonia. Bob can be reached at rlambert@allegis-partners.com.