Get on Board

By Ian Ziskin

Groucho Marx said, "I refuse to join any club that would have me as a member." Not so for many HR executives. Most HR leaders would say that they have been working their entire careers, not only to be invited to join the club and get a seat at the leadership team table, but also to become a key player in the boardroom. That aspiration is beginning to come true for many HR leaders who support the boards that oversee their companies. This trend is long overdue, given the contributions highly experienced HR leaders can and do make to boardroom dynamics and decision-making.

Depending on the role you are in today, you may or may not have direct interaction with board members. If you are a CHRO, spending time with the board is probably consuming an increasing part of your life. If you are working below the CHRO level, it's possible you may have never even met your company's board members. But you may still be experiencing more board influence than you realize. The issues that boards care about are having a growing and profound effect on how HR people at all levels of the company spend their time.

The Board's Role

The first step in getting a better handle on the HR leader's role with the board is to understand the board's role with the company, which includes:

1. Representing shareholder interests
2. Providing governance and oversight
3. Making selection, performance, and compensation decisions about the CEO and other key senior leaders
4. Reviewing, shaping, and endorsing strategy
5. Offering wisdom and advice
6. Balancing between input and consensus

The first and most fundamental responsibility of the board is to represent the interests of shareholders—those individuals and institutions that invest capital in the company and expect a financial return. In this capacity, board members are expected to play an objective, impartial role in ensuring that company management makes wise, profitable, and risk-appropriate decisions that benefit shareholders.

As an important supplement to protecting shareholder interests, boards are also expected to provide strong governance for and oversight of how the company is run. This role involves ensuring there are rational goal setting, financial, audit, risk management, legal compliance, environmental sustainability, ethics and integrity, and other similar processes and safeguards in place.

Many experts would say that the single most important decision a board makes is selecting the CEO. The board has direct authority and accountability for hiring, assessing, and compensating the CEO, and increasingly, the CEO's direct reports as well. Boards, and compensation committees in particular, ensure that the senior team is being stretched, they evaluate or oversee the assessment of the senior team's performance, and they make certain that senior leader compensation is appropriate in light of company and industry competitor performance, economic and market conditions, and delivery of results against goals.

Boards are increasingly becoming involved in discussing, debating, reviewing, and approving company strategy and the operating priorities that underpin strategy. There is a fine line between the board's role in reviewing and approving strategy, and management's role in conceiving and executing strategy. This seems to be one of the grayest areas of board involvement and promises to become even less clear over time as boards seek to ensure strong representation of shareholder interests.

One of the most potentially positive—and simultaneously perilous—roles a board can play is providing wisdom, advice, perspective, challenge, and support to the CEO and other key company leaders. The best board members know precisely when to offer insights and counsel. The worst board members regularly overstep their bounds and issue orders and ultimatums.

A key insight about boards is that they are typically a collection of very smart, experienced, and capable individuals who have strong opinions and the willingness to share them. Therefore, boards are generally much better at providing a collection of inputs than they are at reaching consensus and speaking with a single voice. The chairman of the board, or the lead director, can therefore be important in collating, interpreting, and communicating the collective board input in a manner that is translatable into action for the CEO and other key leaders.

The Role of the HR Leader with the Board

Now that we have summarized the key roles of the board of directors, let's build a bridge between the board's role and the evolving role of the CHRO and other HR leaders in handling board dynamics. The evolving HR leader role with the board has four primary components:

1. Executive compensation
2. Talent and organization
3. Key metrics
4. Advice and engagement

Executive compensation has been the hottest HR-related board concern over the past 10 years and may finally be giving ground to talent and organization issues. But, the party is not over just yet. There are essentially three areas related to executive compensation that dominate the landscape: pay, performance, and governance.

Pay is a function of the following interrelated questions: pay relative to whom, pay in what form, and pay for what? Without intending to sound cynical, the search for answers to these questions is a means of protecting boards and compensation committees from being embarrassed by the three-headed compensation monster—comparing ourselves to inappropriate peer competitors, paying ourselves too much too soon, and setting the wrong goals that are too easily achieved. All of these issues are fodder for perceived—or real—abuses by management, and have the potential to subject the company and board to unwanted scrutiny and criticism.

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Boards and management teams are also constantly working to improve good governance and transparency. The Compensation Discussion and Analysis (CD&A) included in the company's Annual Proxy Statement as mandated by the Securities and Exchange Commission has contributed significantly to broader communication about CEO and executive compensation practices. If you are not familiar with your company's CD&A included in the Proxy, read it thoroughly. It will tell you a lot about your company's executive compensation philosophy and practices.

Along with increased attention to the CD&A as summarized in the Proxy, as well as accompanying say-on-pay votes by shareholders, most boards have moved or are moving toward utilizing independent compensation consultants who provide an external view independent of management to verify the appropriateness of compensation levels and practices.

Talent and organization issues may be fast eclipsing executive compensation as the challenge of choice for boards. The issues in this arena tend to focus on succession planning, talent development, workforce engagement, diversity, human capital strategy, safety and health, sustainability, and board effectiveness, among other things.

As mentioned earlier, the most important job of a board of directors is to select the right CEO. This accountability is closely followed by ensuring the CEO gets the proper coaching, development, and performance feedback, and that there is an ever-present focus on CEO succession—both in emergency situations as well as in the normal course of CEO transitions. Increasingly, this focus on the CEO is being expanded to include select members of the senior leadership team, where boards or compensation committees are also exerting additional influence and involvement in approving selections for positions such as CFO, CHRO, general counsel, and certain operating executives.

(By the way, if you are being considered for a CHRO position, do not take the job without interviewing with the board's chair of the compensation committee. If the board and CEO

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do not also insist on this process, think twice about taking the job. Chemistry with the compensation committee chair is becoming as important as chemistry with the CEO.)

Key metrics are becoming a natural extension of the HR leader's role in executive compensation and talent and organization issues with the board. It is becoming more commonplace to see HR's role expanding to include tracking, analyzing, and reporting on key metrics that are often included in a human capital scorecard or dashboard and shared monthly, quarterly, or annually with the leadership team and board as appropriate. Such metrics may include analytics on executive compensation, people costs, workforce engagement, talent and succession planning, diversity and inclusion, safety, sustainability, and others.

Perhaps the single least understood and most influential tool for advice and engagement with board members is the art of the pre-meeting. For example, the CHRO and their head of executive compensation are responsible for preparing the compensation committee chair and the other committee members for what will be discussed and potentially decided in each committee meeting. If you believe in the "no surprises" theory of management, as I do, ensure your compensation committee is well-prepared for every meeting, and that there are no surprises during the meeting.

So, it is important that you meet or speak with the compensation committee chair before formal board and committee meetings take place. Some HR leaders I know go through this process not only with the compensation committee chair, but with each committee member prior to every committee meeting. This process takes an incredible amount of time, but not as much time as picking up the pieces following an extremely difficult and contentious compensation committee meeting where participating board members feel surprised, ignored, confused, or misinformed—or they simply don't agree with management's recommendations.

An underlying assumption that governs interactions with the compensation committee chair is "who's the boss?" While it's certainly true that the CHRO fundamentally works for the CEO, practically speaking the head of HR has a fiduciary responsibility to the board, and the compensation committee chair in particular. Therefore, HR leaders really have two bosses, at least on matters that relate to compensation committee purview. For those HR people who have been fighting for a seat at the proverbial table, this scenario represents a seat at the table on steroids.

Tough Board Questions

As you become increasingly proficient at leading and executing a wide variety of actions with the board, you must also prepare yourself for some very difficult and sometimes very uncomfortable questions. Here is my top 10 list of favorite difficult questions from board members:

1. What do you (and others) think of the CEO's leadership style, strengths, weaknesses, and/or performance?
2. Why can't you get the CEO to agree to_______________?
3. Don't you think the CEO and leadership team are making too much money?
4. Will you tell the CEO he/she doesn't deserve a bonus?
5. The CEO thinks __________________ should be his/her successor. What do you think?
6. Is ________________ worth keeping in his/her job, or is the CEO just being protective?
7. How are people in the company really feeling?
8. What do you think of the other board members?
9. Can you help my (relative or friend) find a job?
10. Is there anything I can do to help you?

If you are a savvy HR leader and a rational human being, you are probably thinking to yourself, "I hope I never get asked any of these questions!" Ironically, the more credibility you have with the board, the more likely it is you will be asked at least some of these questions. So, hope or avoidance will not be your best strategy for dealing with these inevitable issues. Instead, begin thinking through how you might answer these questions before you are ever asked.

Board Lessons Learned

Let's step back from the details of interacting with the board and reflect on some key lessons learned regarding how boards work and what implications these dynamics have for CHROs and other HR leaders. In particular, here are six lessons that I, along with some other CHROs I know, have learned the hard way:

Real Decisions

Less than 50 percent of real decisions happen in the boardroom. CEOs, leadership teams, and CHROs spend so much time preparing for board meetings, they often forget that most real board decisions happen between and outside the formal board meetings, where deeper discussion, dialogue, and questioning can take place.

Lasting Impressions

Greater than 50 percent of lasting impressions are created outside the boardroom. There is no doubt that more than a few executives have hurt their reputations during their 15 minutes of fame, when they made a bad presentation or underwhelmed board members with an unprepared response to an important question in the boardroom. There are plenty of examples of these kinds of magical boardroom moments. However, the majority of impressions you and other leaders will create with board members actually happen outside the boardroom. These situations may involve a private discussion with a specific board member, circumstances where you need to handle highly confidential information, or moments of truth where you need to decide whether and how to approach a board member about a delicate matter without being asked.

Independence and Transparency

CHRO credibility equals independence and transparency. The fastest way to hurt your credibility with the board as an HR leader is to create the impression that you are in the CEO's pocket and are simply doing his or her bidding. Boards expect HR leaders to have an independent and objective view, and to push back on the CEO or other leadership team members when appropriate. In this capacity, HR leaders have a fiduciary obligation to serve and work for the board, even though they also are a member of the management team and work for the CEO.

Board vs. Team

The board is not a team. Boards are a collection of broadly experienced, very intelligent individuals who have great wisdom and insights to share if they are well-informed and properly utilized. However, they generally do not operate as a highly integrated team. This is not a criticism as much as it is a reflection of the realities that characterize boards. Boards meet approximately five to seven times per year. They do not work together regularly as management teams do. And, they have many other roles, responsibilities and competing priorities that consume their attention when they are not playing their part-time roles as board members of your company.

Endorsement vs. Trust

Board endorsement does not equal board trust. The best boards operate under the trust but verify theory of leadership. They often trust the CEO, leadership team, and HR leaders until they prove they can't be trusted. But, it doesn't

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take much to lose their trust, especially if and when they feel they are not getting the straight story or management is not protecting shareholder interests. This trust must be earned and re-earned, verified and re-verified. Boards generally trust you, right up until the time they don't.

Illusion of Communication

George Bernard Shaw said, "The biggest problem with communication is the illusion that it has taken place." One of the biggest mistakes I see CEOs, leadership teams, and CHROs make with boards is relying on the belief that they have communicated something to the board, and it therefore must have been heard and understood. One of the simplest yet best practices I have seen in dealing with boards is to start off each board or committee meeting with a reminder of things that were discussed and decided at the previous meeting. Do not assume that just because you have told board members something important, that they remember and fully understand it. Dealing with this challenge is not a matter of intelligence, but rather a matter of common sense.

We are operating in unprecedented times, with multiple competing priorities of business performance, good governance, openness and transparency, great leadership, and transformational change all placing extraordinary demands on CEOs, leadership teams, CHROs, and their boards. There is no better opportunity for HR leaders to play a key role in the boardroom, and no more vital time for us to step up to the challenge.

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