

ADVANCED BOARDROOM
EXCELLENCE



HR ON THE BOARD?

Advanced Boardroom Excellence



HR ON THE BOARD?

The need for a wide diversity of skills and experience around today's corporate boards has never been greater to ensure that companies can competently tackle issues beyond the key strategic imperatives and financial performance of the business. As businesses operate in ever increasingly global and complex technical environments the board agendas have expanded accordingly to address cultural and behavioural oversight, succession planning and development of the top team, executive remuneration challenges against the goals set for the company, supply chain reputational management challenges as well as the impact of social media and cyber security. These issues will only become more important and require time and rigour spent on them in the future.

With the above challenges comes the need to look hard at a broader set of skills and experiences around the board table and my own experience confirms that this is already happening on the boards. Historically Nominations Committees have favoured former CEOs and CFOs but this is changing rapidly as they seek out a wider breadth and depth of thought, skills and capabilities which provide a different perspective to the key underlying changes of strategic drivers and financial performance. The fact is that the issues that I highlighted in my opening paragraph are the ones that if boards get right they will gain the competitive edge over their competition; placing talented senior people on to Executive Committees and Boards from areas such as HR and IT will only enhance that capability.

There are without question excellent Human Resources Directors who truly understand the strategic, commercial and financial aspects of business and have a global mind-set that allows them to comfortably operate around Executive Committees or main Boards as NEDs. The HR community itself must ensure that top HR talent have had the opportunity to have operational experience in their earlier career paths and make it their business to be financially competent. It is a core part of good HR to ensure appropriate development for people within organisations, so I would strongly recommend that the HR community address its own perceived gaps to ensure that they are equipped with the skills needed to function at this level on a Board. This will ensure credibility within the business community and dispel these time worn views and opinions that HR is all about process and not about strategic business capability. Many HRDs have so much to offer with their skills base and experience and must be credible candidates for consideration for Board NED roles.

This report sets out in detail the views of why Board Chairman and Chairs of Nomination Committees should give consideration to developing the diversity around their Boards by proactively encouraging search consultants to identify those people with the business skills, global mind-sets and real cultural and behavioural oversights to be considered for positions on Boards. The HR community needs to listen to those views and rise to that challenge in demonstrating that there are some superbly well qualified HRDs who would make a great contribution to corporate boardrooms in the UK. Many HRDs have already shown their value as highly credible NEDs and they need to promote the inclusion of HR around their board tables too.



Anne Minto OBE

- NED and Chairman of the Remuneration Committees on the boards of Shire plc, Tate and Lyle plc and EXL Inc.
- NED on the Court of the University of Aberdeen
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HR ON THE BOARD?

INTRODUCTION BY HELEN PITCHER OBE, CHAIRMAN ADVANCED BOARDROOM EXCELLENCE LTD

This year's research project, part of our continuing Research on Board Futures and Board Dynamics, is focussed specifically on the role of the HR director in relation to the boardroom.

Given the governance agenda and the future challenges facing Boards there would seem to be a 'natural' match to the skills and expertise of Human Resource Directors especially in the NED role.

The fact that they are not emerging into these roles as 'naturally' or as rapidly as might be expected, is the area of exploration of this Report.

This throws up a challenge for Chairman, Chairman of Nominations Committees, CEO's and not least the HR Directors themselves.

Broadly, the emerging themes which give rise to the claim of 'natural for an NED role' are as follows:

Of the existing challenges to Boards we can point to:

- Remuneration and Reward
- Cultural and Behavioural oversight
- Development of a sustainable and diverse executive leadership

We can add to this list, as fast approaching challenges:

- The rapidly changing 'Future of Work' issues driven primarily by technology
- Changing employment models, including contractual, reward and engagement with 'employees'
- The reputational oversight of supply chain employment and sourcing
- The shifting of Board oversight to a wider and more diverse consideration, covering, consumers, employees, suppliers, communities and society
- Calls for more divergent thinking styles as opposed to the convergent reductionist thinking which currently dominates

All this requires a broadening of Boardroom thinking, away from a purely financial evaluation and analysis, a role which will be rapidly consumed by Artificial Intelligence 'Bots', into a much more strategic space where the challenges of new work models and 'big bang' disruptions are at the forefront of the Board challenge to create a sustainable company.

We undertook this research to explore the paradigm thinking about Human Resource Directors. They have expertise in many of these emerging issues, they also represent, beyond the CEO, the only function which has the breadth of stretch across the whole organisation. This should provide the opportunity for the Board to access the divergent thinking which will be required to carry Boards forward to meet the challenges ahead.

Clearly, with many of our current Chairman and NEDs having 'grown up' with 'Personnel' as a transactional and reaction based function, this will require a re-calibration and 'exposure' to a more strategic HR community. Equally, this research throws down a challenge to HR Directors to both 'live' in the strategic business landscape and to demonstrate their strategic thinking capability to meet the key business challenges facing Boards.



Helen Pitcher OBE

– Chairman Advanced Boardroom Excellence
 – Chairman pladis, chair of remuneration committee
 – Chairman KidsOut
 – President INSEAD International Directors Network
 – NED Chartered Institute of Personnel Management, chair of remuneration committee

RESEARCH SUMMARY

In a business world going through unprecedented change, workforce capabilities are increasingly seen as critical to achieving the agility needed to respond to major disruption, automation and new employment models. HR leaders, with their broad overview of the whole organisation, are ideally placed to contribute to business success in this volatile strategic landscape.

Yet while company boards grapple with people-related challenges ranging from executive pay and leadership development to rapidly emerging “future of work” issues, HR remains largely absent from the boardroom. To explore the reasons for this, we interviewed 96 individuals, including company chairman, chief executives, non-executive directors, chief financial officers, HR directors, search consultants and academics.

Our respondents were almost equally divided between those who saw HR directors as natural board players (39 per cent) and those who did not (37 per cent). Many respondents in the second group thought HR directors lacked the business acumen and strategic thinking capabilities needed at board level. However, even respondents who did not see HR directors as board players mostly recognised the value of their skills, especially their high levels of emotional intelligence and ability to handle difficult issues in a mature way.

Several respondents pointed to the trend for smaller boards as a reason for excluding HR leaders. A few conceded that there might be a place for HR on larger boards - but only in non-executive director (NED) roles.

There were also suggestions that members of the HR community should do a talent management job on themselves. *“I think a good HRD should be seen as a board player but the issue is probably that HR is not seen as being focused on business outcomes and there is a range of quality across HR,”* remarked the CEO of a financial services firm.

Others were more scathing, with one respondent referring to *“lack of financial smarts”* in the HR community.

Our interviews revealed an alternative view, with some respondents arguing that even very

good HR directors are often excluded from the top table because boards do not spend time on workforce-related issues. Nor do they expect or invite HR directors to talk about anything else. As one respondent put it: *“quite often the chair and CEO bring their own prejudices to the table”*. Making a similar point, another respondent said: *“Business is obsessed with direct P&L experience and many chairs and CEOs are deaf to broader arguments about the contribution HR can make.”*

While HR faces may be absent from the UK PLC boardroom, they are frequently members of executive committees. Experienced practitioners also exercise influence by operating as committee members and working with board members, especially the chief executive. Yet the function needs to increase its influence further so that it is invited to take part in discussion of all areas of the business as a matter of course. For that to happen, HR as a profession needs to develop more confidence and self-belief, as well as broad business experience and skills in key areas such as analytics. Headhunters and company chairman also have a role to play in encouraging senior HR staff to take on NED roles as part of their development.

With existing skills shortages expected to grow worse after Brexit - and respondents expressing little confidence in the ability of our political leaders to make the right decisions - HR input into business decisions has never been more important. As Helen Pitcher OBE, Chairman of Advance Boardroom Excellence, says in the report: *“HR has a vital role in preparing the organisation and employees for the new workplace. The pace of change requires a nimble, flexible and versatile workforce that embraces innovative ways of working as a means to optimising performance, rather than being fearful of the future.”*



I THINK A GOOD HRD SHOULD BE SEEN AS A BOARD PLAYER BUT THE ISSUE IS PROBABLY THAT HR IS NOT SEEN AS BEING FOCUSED ON BUSINESS OUTCOMES AND THERE IS A RANGE OF QUALITY ACROSS HR,



THE RESEARCH

We interviewed 96 respondents – chairman, chief executives, chief financial officers, HR directors, non-executive directors, headhunters, academics and a psychologist. Respondents worked in a range of sectors, including financial services, manufacturing, the public sector and the third sector.

We have included as part of the research both existing executive HR directors and NEDs who have emerged from an HR background. Their involvement produces a perspective that is rarely seen in comparable research.

THE NATURAL BOARD PLAYER?

We started by asking:

Do you think that generally an HR director would be seen as a natural board player or as part of the board support team?

Respondents were equally divided between those who agreed with this notion, 39 per cent, and those who disagreed, at 37 per cent. However, there was a fair proportion, 24 per cent, who would not commit themselves either way.

Those respondents who didn't see HR directors as natural board players were mostly happy to say that they saw the value of the function. Their comments included the following:

"I really think it is for the board to own the people agenda; if the board does not own the culture of the organisation, that is a problem. I think that in organisations that work well, where they have embraced diversity and have a healthy culture, it is achieved at board level. As important as the HR function is, and as important as input from HR is, at the end of the day the board needs to own the culture and key drivers for creating the right environment, for empowering the right people, to ensure the right people are on the bus."

Chair, financial services

"The HRD should be on the executive committee, probably irrespective of organisation, especially where there are a lot of people in the organisation; you are only as good as the people you employ and the board needs to pay attention to that."

NED, financial services

"Don't agree, this is not meant to be pejorative, most HR people have talent, but my experience has been that while they are smart and tuned in, they don't have the broad based commercial experience to sit on a Board or lead a company. Perhaps on larger boards they may play a role as an NED but where the board is small, HR does not merit inclusion."

CEO, financial services

"You could argue the same for all functions. They have a fundamental part to play in the future of the business and the health of the business, but the issue is always broader business expertise."

Marketing expert.

Some respondents were more definite, stressing that they didn't see HR professionals as corporate decision-makers:

"No, they don't have the depth and breadth of experience required. If you need a director who is a specialist, then HR may have a role but a board member needs to look at all areas of concern, not just their own function. You get to a board seat because you understand how the whole company works, pricing, products, and all aspects of operations."

NED, telecoms

"Not sold on the idea. I have a hardnosed attitude to HR, and would rather have someone with IT skills than softer HR skills."

NED

"Many different functions and agendas want board time and I don't see that HR merits it - they don't have any particular importance over others."

Chair, manufacturing



The Board Size Issue

The move towards smaller boards was offered by a number of respondents as one very good reason why HR is not at the board table.

“On the whole HR is not at the board table because boards are smaller, made up of CEO and CFO with NEDs. The contribution HR could make is not recognised. It is seen as administrative, rather than strategic.”

CEO, professional association

“On most PLCs there are typically only two executives on the board – the CEO and the finance director. I’m not sure HR merits a place on a main PLC board, but should be sitting as an integral part of the executive management team. The board needs to have the right people in place.”

– Chair

A few respondents were very specific about the lack of expertise in the HR community:

“Of course, if an HRD is rigorously educated and is hooked into all aspects of the business but, I have found that the standards for HR are much, much lower than for other directors. The HR professional who takes the trouble to get a broad and deep education is at an advantage. They should have a level of gravitas and experience that you get from being in a P&L environment. In general HR is considered an add-on and a cost centre rather than an investment centre.”

Academic

“In my experience the quality of HRDs is extremely variable, so not very many can hold their own at board level; it is often the case that in a support function you are a bit of an orphan.”

Chair, NHS

“The board certainly needs a capable voice speaking for people, culture, talent, remuneration and so on but you don’t always find that in HRDs. They disappoint because they don’t have a strategic point of view and don’t understand how the boardroom works.”

NED, public sector

HR Time for Self-Reflection

Some respondents suggested that people in the HR community could do a talent management job on themselves:

“I think a good HRD should be seen as a board player but the issue is probably that HR is not seen as being focused on business outcomes and there is a range of quality across HR. Some good people get tarnished by the perception that HR does not talk the language of business.”

CEO, financial services

“HR [people] are often very process driven, will keep you on the right side of the law, but not sure they know the intricacies of the business well enough, although I think there are pockets of it. In the main they are very good and skilled but they stay on the HR track and don’t understand the whole business.”

Executive director, not HR

“No simple answer, depends on the nature of the company and the sector, and the role of HR and workforce in business success is a key component. However, they need to be able to bring to the table more than HR expertise to merit consideration. Their contribution needs to be informed by the agenda of the board.”

CEO, financial services.

Some more positive comments and advice were also offered:

“I don’t think of myself as the HR person on the board – that’s not how I see my contribution. I am there to be an effective business person, and at certain times I can bring HR skills to the fore. I am wary of people being spoken of as representatives for their function on that board. That is not what board membership is all about.”

NED, private healthcare

“Absolutely agree, it is imperative that you have the people aspect as a key component of business strategy at board level. Younger workers are more demanding of companies in terms of CSR and employer brand. The EVP (employee value proposition) is becoming a much bigger agenda item, and in a situation where the UK is going to face more skills shortages this is something we need to pay attention to in order to compete. The ethics and values that sit behind EVP will attract and retain the people you want.”

HRD, pharmaceuticals

“Why don’t we have more obvious HR board expertise and good reputation? One reason is that boards have not really been spending time on HR related areas. Are HR at the top of the function able to operate at board level? This is a two-sided question: HR beats itself up and [HRDs] are told they don’t have good enough business understanding, but board and executive teams are not attuned to strategic HR. You do see very good HRDs, but not enough for them to become more visible as a function. They are not even always on the Remco, which you would think would be obvious.”

CEO, professional association

ADVANCED BOARDROOM EXCELLENCE ARTICLE

THE BUSINESS OF HR



There are increasing calls for the HR function, as the facilitator of organisational and talent effectiveness, to become, and be recognised as a key strategic lever for the business. Countless articles in journals such as the *Harvard Business Review* and *McKinsey Quarterly*, have made this case, which also received strong support from the *2017 Deloitte Global Human Capital Trends Report*.

The general premise is that the world of business is moving fast, with workforce capabilities and "workforce value" being core to achieving the pace and agility needed to respond to "big bang" digital disruption, automation/AI and structural employment changes. The HR community, together with the CEO, is critically placed to support the business and enable it to survive and succeed in this disruptive strategic landscape.

The view that HR needs to play a more strategic role is paralleled by calls for boards to move quickly onto the strategic agenda with more innovative, creative and diverse thinking to sustain the businesses of the future. The start-up ethos that many established businesses seek to emulate, coupled with disruptive technologies present boards with further challenges to be forward looking and responsive to change. The current situation brings to mind the analogy that Peter Senge, author of the *Fifth Discipline* uses of a car at night going faster and faster and needing more and more powerful headlights to illuminate the road ahead.

This evolution of the HR role calls for members of the HR community to essentially become the strategic experts

in the "talent value supply chain" and to move their strategic tanks onto the CEO's lawn. The profession's focus in future will be on speedy and real time analytics, which leverage fact based insights and understanding, while highlighting the "brand value" of the workforce and "traffic lighting" individual contributions.

This should be HR with machine learning algorithms driving succession and diversity to support strategic business goals, focused on driving business performance and impact by maximising the talent investment and creating an "appreciating workforce value coefficient".

An HR that maximises smart workflows and AI "cognitive bots" for effective employee engagement and on-boarding.

An HR at the centre of direct, rapid, authentic and engaged social media communication with the "workforce value chain".

An HR that drives business value through agile organisation effectiveness and rapid real time, talent value decision making. With data driven insights and continuous improvement, it would be firmly resident in the forward strategic agenda.

All these initiatives are happening and will emerge as mainstream HR thinking and practice. The challenge is to turn HR from a bland generalist "business partner" who knows how to apply a sticking plaster, into a master of the "human value supply chain" able to make informed, rapid and impactful business decisions.

ADVANCED BOARDROOM EXCELLENCE ARTICLE

WALKING THE TALK



Many companies claim in their annual reports that their people are "central to the business". Typical comments include:

"We are nothing without our people and everything we achieve is down to them."

"Our culture and our people are fundamental to our sustained success. Our people want to do their best and be their best, and we want to support them in doing so, creating an inclusive and creative workplace that facilitates the flow of brilliant ideas and creativity."

"We are a relationship business where people are our most important asset."

"We can only successfully realise and sustain our transformation by harnessing the energy, enthusiasm, skills and expertise of our people."

However, the reality of board deliberations and capability to deliver on these "proclamations" is clouded by board agendas and their focus on performance, by board capability profiles dominated by finance and reductionist thinking and by traditional models of management.

HR INPUT TO THE BOARD

In exploring the issue further, we asked if the boardroom could benefit from HRD expertise in the same way that CFO input is seen as indispensable.

The importance of HR to business success suggests that HR management is an integral part of strategic decision-making, alongside financial and operations management. While HR faces may be absent from the UK PLC boardroom, they are frequently members of executive committees or sub-management boards.

Experienced practitioners exercise influence without having a seat on the Board; operating as committee members and working with Board members.

Scepticism Abounds

As the following comments show, many respondents had doubts about the value of HR input to the board:

"Those who have had opportunity to do some general management and to apply their skills can add value. Those who take a theoretical point of view don't have the experience or, frankly, the ability to claim a board seat. Any function can claim that it is critical for the business, and they do, but it doesn't qualify them for automatic inclusion."

Chair, financial services

"Quality in HRDs is lacking, so they are badged alongside marketing as fluff, as not taking a commercial angle. The focus on culture is now important, with the public and customers wanting organisations to be culturally aware, but that discussion is not taking place at the board and that will undermine HR in the long term."

NED, financial services

"There isn't really room and HR issues are not something we discuss all the time. Smaller boards are a good thing."

Chair

"Maintaining independence is more important. The role of the board is to be particularly independent and the ability to challenge the executive is crucial. So, in general you don't want an executive on the board as it could compromise full and frank discussions."

NED, lawyer

Undervalued HR?

Some respondents, by contrast, feel that HR expertise is undervalued:

"HR input is critical to what the CEO brings to the Board but some HRDs say that even outside the boardroom nobody asks how the people are."

NED, public sector

"HR has a place but is rarely called on."

Academic

"Almost as a given, but many HRDs have difficulty in convincing that they have the depth and breadth of experience necessary."

CEO, professional association

"Traditionally, it is just not the way Boards are structured. Chairs and CEOs are a bit straitjacketed: they get what they need and don't understand what HRD could do. HR is seen as functional rather than strategic."

HRD, retail

"There is insight that an HR professional can bring that is not always apparent in the numbers, everything we do has a commercial impact."

HRD, retail

"As NEDS there has never been a better time for good, commercially and financially literate HRDs to be put forward, not necessarily pigeonholed as Remco chairs. They have those skills in talent management, succession planning, remuneration that the board needs but they have to have the financial smarts too."

NED



IF NOT YOU, WHO? IF NOT NOW, WHEN?



Why do you think HR Directors are currently missing out on a board roles?

Opinions on this question were fairly even split, although a number of respondents pointed out that boards tend to be small and don't usually include executives other than the CEO and CFO.

The criticism that we usually hear levelled at HR practitioners is that they are not commercial enough. Many HRDs may not have the line management and P&L experience required to contribute effectively to the issues addressed in the boardroom. The reality is that they need to be able to go "toe to toe" with the finance director on HR value and cost, justifying the fact that an organisation's human capital costs are, on average, 70 per cent of its operating expenses.

HR professionals need a good commercial grounding, and an understanding not just of business generally but of the specific details of their business. At board level the HRD needs to contribute beyond HR, and to adopt a business-centric rather than HR-centric perspective:

"Sometimes, HRDs don't have broad enough experience. They tend to be very technical in one area - say reward, whereas more generalist knowledge may add more depth to their claims."

Director, financial services

"Whatever they may think, leadership does not come from the HRD. HR is a function within the business but leadership comes from the board and CEO. To claim otherwise is a fundamental category error. The regulatory environment and restrictions on the size of the board, the corporate governance code, etc. mean there is a maximum size of Board and there is no room for makeweights. If you asked whether we should include Risk or HR, we would choose Risk every time."

Chair, financial services

"Some of them don't have the required commercial acumen, and some have shied away from being involved in remuneration. They have to be seen to be able to play a real role on the board. I think what is lacking is the opportunity for HRDs to go

out into the line and run part of the business for a period of time. That experience is so useful. P&L responsibility and managing big teams to deliver service to customers make such a difference in terms of business experience. Many HRDs have too narrow an HR focus, it is a mistake to stay in one silo and then expect to be promoted to the board. There are a lot of excellent HRDs who do have the skills and could make a contribution as NEDs. More enlightened chairmen know and value the work of the HRD in the organisation. Remuneration is such a hot topic and the whole issue of succession planning is high on everybody's agenda."

NED, manufacturing

Unreconstructed Views of HR

"HR fulfils a key and integral role but is not indispensable, not any more than the head of merchandising or commercial. I don't think the issues PLC boards deal with need an HRD, other than expecting HR to present on specific issues. The small size of boards militate against HR as a presumed seat."

Chair and NED

"Not seen as good enough, as they talk in narrow terms when they talk to the board. They don't make a good enough impression and don't convince that they understand all the things the board has to deal with. They don't bother to learn about all aspects of the business. If they went out and got the wider experience of running the business, of really understanding the whole business, then they would be seen as savvy and interested, but as it is other senior execs don't have confidence in them."

Chair

"HRDs can be very prim and obsessive about their ownership of people issues, which are actually in the ownership of everyone in the organisation; they are owned by the board as a whole, not one person who is an HR expert. They don't get themselves in a place or position from which to qualify for such a role. They don't have the general knowledge about business, and many HR people don't understand the financials well enough."

CEO, professional association

An HR Perspective

Some of the HR respondents had more positive views:

“Anyone will miss out on a board role if they are not competent but since people are our most powerful means to accelerate performance, you need HR in the boardroom.”

HRD, telecoms

“May be a gender issue - maybe they don't push themselves for board roles. Commercial acumen is an issue, but many HR people don't do cross-functional moves in the same way as other functions. Maybe some HRDs don't come through commercial routes, and are too specialised. CIPD qualification doesn't impress that much, whereas an MBA is a good way to leapfrog and get involved in other projects, not a must, but a helpful.”

HRD, manufacturing

“HR is seen as administrative - tea and sympathy. There is a perceived lack of hard measures in HR. A lot of board members have not experienced really good HRDs. HR as a profession is hampered by lack of quality, which is not as strong as it should be. The ones who gain favour in board circles are those who have a remuneration bias and are often the least creative, and that perpetuates the role of HR as administrators. The chair and CEO tend to see the HR role as transactional. It's not fair to say they lack commercial acumen, but they don't always talk about other issues. However, that is not entirely their fault. The expectation is that they won't because they are not invited to or expected to do so, quite often the chair and CEO bring their own prejudices to the table.”

HRD, healthcare

“HRDs don't present themselves as astute in business terms. We are seen as fluffy bunnies who do the people stuff, still trying to prove we are a credible profession. People think of HR as hire and fire, disciplinaries and car parking spaces. In organisations that value HR they appreciate what we can do to facilitate, enrich and engage around workforce issues.”

HRD and NED

A Broader Business Perspective

A seat for HR at the boardroom table will only be a given when HR directors can demonstrate knowledge, skill and expertise across the whole business of the organisation. A number of respondents mentioned a perceived lack of business acumen in the HR community:

“The main reason is the way that they are trained. They go into HR early and stay in HR, get little exposure to the real commercial drivers that make business successful and don't see strategy from a business strategy perspective. They become quite operational and tactical, as opposed to adding value from an overall business perspective. Taking a general management role helps. What differentiates successful people is that they have a continuous desire to learn irrespective of their level in the organisation and they have drive. You need both.”

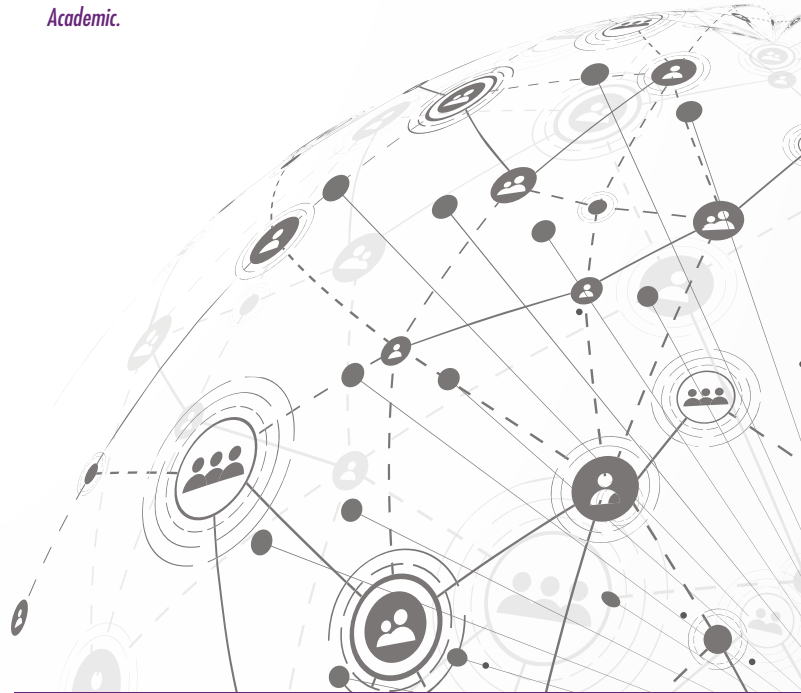
Headhunter

“Often it is because they are too focused on HR issues in terms of justifying the function of HR rather than really associating with the business; and, in particular being close to the CEO and chair and the dynamic of what they and NEDS are aiming to do with the business. It is not the HR function that is not on the board; it is the person. They are commercial in terms of providing a good service but they don't really associate fully with the business, don't understand the strategy and their board papers are normally presented by someone else.”

HRD and NED.

“Many, not all, HR people lack the leadership skills, lack numeracy and can't hack it at Board level, CEOs are too powerful for them. And the truth is that at main board they are not really interested in things like company culture, so there is fault on both sides, but the lack of numeracy is a serious issue. Some HR roles are clerical, not strategic. Look at the competencies of HR as seen by C-suite people and the highest competency is “expert” and at the bottom is “leadership”. HR professionals are not seen as leaders and high achievers, although they are seen as important. They value their specialist expertise over breadth of experience.”

Academic.



ADVANCED BOARDROOM EXCELLENCE REFLECTIONS

THE TALENT AGENDA

Talent management is a major concern for many respondents, and HR clearly has a key role in identifying the specific talent constraints and managing a talent pipeline. Ensuring that the organisation engages with its people is another critical part of the HR agenda.

Acquiring talent has grown increasingly difficult, and organisations need to align talent strategies with their business goals and optimise the workforce throughout the organisation.

Forward-thinking HRDs clearly demonstrate that they understand what the Board needs from the function and provide their organisations with a competitive advantage, facilitating a robust talent strategy that will differentiate the business. The HRD needs to be a talent strategist, developing a comprehensive talent strategy for the organisation, and then helping the board to understand specific HR initiatives and decisions in that strategic context.

THE TIPPING POINT

What would be the qualifying criteria for the HRD as an executive director on the board?

In general terms there was agreement that HR executives need to understand and discuss broad strategic issues, applying their HR expertise to the wider needs of the business. To merit a role on the board an HR professional needs to understand and contribute to discussion on all areas of the business, including finance, sales, marketing and operations. Board player, or as part of the board support team?

No executive will be invited onto a board for their functional expertise, whatever that might be. Board directors have a collective responsibility and accountability for the whole business:

“Individuals would have to have had general management experience, not just HR experience – they could not just offer an HR opinion. All board seats have a responsibility beyond their function and a person sitting on the board needs the background and expertise to do that. Most Boards can afford three executive Directors, one is the CEO, one is the CFO, and if there is a third then the board would have to consider the most important area to cover and that is typically likely to be Risk or Commercial. It is unlikely to be a more narrow function such as IT or HR. There are exceptions where the configuration of the HR role is more a COO role, but if it is purely HR then I can't see that ever being a shoo-in for a board seat.”

Chair, financial services

“Quite hard to contribute at board level if you have only ever worked in one discipline”

Chair, healthcare

Some respondents had useful advice:

“You may need to nurse and coach for an HR person to understand the technicalities but it would be worthwhile.”

NED, financial services

“I want to see them bring a very enquiring mind, and be able to challenge with respect.”

CEO, business services

“Good HR people understand the whole business but part of it is general confidence, HR people get in the HR box and don't broaden their experience with different roles and responsibilities the way managers in other functions do.”

Chair,

“Experience at senior level, particularly global/international experience, they need to offer seasoned business acumen outside the HR function. It's a bit ironic, if you step

back and look at talent, [you need to consider] how you communicate the message around a company's business, whatever the offering and mission. I see HR and corporate communications as integral in bringing that message to the market and making the organisation attractive. Building the strategy to acquire and retain the best and brightest means there is huge unmet potential in HR to facilitate these aims.”

NED, financial services

The NED Route, the Path of Least Resistance

As already noted the current tendency is to restrict the executive presence on the board to the CEO and CFO:

“There is no reason why HR should be on board as an executive, an NED role is more appropriate at present.”

NED, manufacturing

“I don't really see that an HRD is likely to gain a board place given the restricted number of chairs available.”

CEO, financial services

We asked about qualifying criteria for non-executive director roles too:

“You need to be playing a broader role and be able to add to the discussion on all fronts.”

Chair and NED

“Someone who has a strong business background, who truly understands risk, accounting, and can add value where it is needed at a given point. NEDs need to engage with a wide range of issues.”

Chair, professional association

“Empathy, toughness, discipline, to counterbalance the exec, integrity is critical and a good track record. On a board you look at individuals in the round but the broader the experience, the more likely it is that the candidate will fulfil the criteria set.”

CEO, financial services

“Always be asking the important questions about how are we enabling the people development that will also use to deliver the strategy the Board has agreed upon? It's one thing to have a vision but another to deliver on it.”

CEO, business services

“There is still a mindset, which is right, that anyone joining a board as an NED needs to be able to contribute very broadly across the agenda. So finance or business leaders are the obvious candidates, whereas HR and legal and IT people are seen as not having that broad strategic and risk experience. Outstanding HR leaders tend not to pass muster because they have not run a big business, or shouldered P&L responsibility.”

NED, manufacturing.

“Need to show, like a finance or marketing person would, real added value in the roles they have held and where they had done that; how they saved money and the real impact they made.”

NED, HR

“They need broader experience, in another function, with P&L responsibility, strategy experience, to show they are board ready in terms of being able to contribute at that level, not just presenting but joining. They need a way of talking, walking into the room as an NED and a peer of other directors, but they tend to go in as HR people and the board does not necessarily want to talk about HR/people issues.”

Headhunter

“NEDs need to have quite a strong sense of self; you have to be comfortable in yourself. A lot of HR people are less suitable in those terms, preferring putting forward options rather than making decisions. The ability to question is sometimes labelled as being awkward but that is what you need at the top.”

HRD, manufacturing.

ADVANCED BOARDROOM EXCELLENCE ARTICLE

A NEW STRATEGIC DIRECTION FOR BOARD DIRECTORS

That wonderful BBC news headline, “Algorithm appointed board director,” brings home the impact that AI has already had and will continue to have on the workforce and organisations – in fact, on everyone. So it's not surprising that the Deloitte Global Human Capital Report 2017 cited “workforce and organisational changes” as the number one most important trend facing companies, with agility being the watchword solution. Another sobering statistic from the same report, underlining the pace of change, was that “only 12% of the Fortune 500 companies from 1955 are still in business, and last year 26% fell off the list.”

Increasingly there are calls from many directions for boards to become more strategic in their deliberations and shift from being predominantly backward looking to becoming forward looking, outward “headlights” for their organisations. For this to happen, the combined experience, wisdom and independence of NEDs should be leveraged to engage and shape the executives’ vision of the strategy as it applies to the company in its business context. This in turn requires an up-scaling and shift in our thinking on the knowledge, capabilities and skills of NEDs.

Louder and louder voices are calling out the disruptive potential of future changes in technology, workforce profile and the sheer pace of innovation. While many of these voices have been around for years, there is a more recent sense of convergence of ideas from closely aligned streams. The “big bang” disruption of digital technology and innovation is increasing in pace. The social structures are spinning people off earlier and earlier into new entities where many who have never reached the corporate ladder see their own ideas, control and reward as their only way ahead.

INSEAD, among others, is illuminating this converging sense of speed and interdependency fuelled by increasingly

accessible, useable and intelligent systems. As a board, you may be operating in a business context where the speed of change and levels of dependency are both low, which means that these trends will be somewhat muted. But for the majority of us, speed, interdependency and the underlying rapidly shifting sands, are becoming increasingly a way of life.

The impact on boards is to push them, sometimes kicking and screaming, into the future. The current method of choice is to set up a separate “digital board” to advise the board, a very “old school” response to a critically modern issue. Board directors of the future will need a more outward looking focus on the strategic landscape. They will need to be knowledgeable, experienced and strategic beyond the narrow confines of a single specialism, sector or country. The multifaceted, international director will know finance, but more importantly will be able to understand, conceptualise and “surf” emerging trends, and coach an organisation and its executives to build a fast, flexible and agile company where sustainability is the new watchword.

As the robot financial controllers take their spot on the board, they will rapidly process in real time myriad pieces of financial information into an accessible, understandable and accurate financial and organisational picture of the business, with appropriate call outs for off-plan performance. Robots are good at this. They will support and free the NEDs to focus on understanding the more fragmented and emerging frontiers for the business, where human intuition, interpretation, insight and connections can be readily leveraged and applied to discern the routes ahead. Humans are good at this.

This is a call out for all who appoint and vet NED's on to boards to be careful what they wish for. Deeper and deeper levels of financial knowledge and expertise will tend to produce a myopic view of what constitutes effective company performance, as well as a disconnect with the real world outside the financial bubble. We need to open up our boards to wider thinking, diverse viewpoints, multifaceted experience and real world engagement to make them increasingly relevant in a modern, dynamic business environment.

WHAT'S HOLDING HR BACK?

We also asked if there was anything in the core HR profile that mitigates against advancing the HRD to a role on the Board.

In general terms respondents did not think this was the case. The arguments against HR as board players were those already outlined, and included the following:

"HR does not always have a seat at top table. If they report to the COO or CFO it does not always help their credibility; they need to report to the CEO to make their voice heard."

Director, financial services

"I am not criticising the discipline, though I could. There are simply too many other competing disciplines that deserve the few seats available. It makes me a bit uncomfortable when I hear HRDs saying that leadership and people development are their responsibility as I believe that it is the responsibility of the CEO."

Chair, financial services

"No, don't think so, experience and fit are not peculiar to HR. Over time the question is how to enlarge the pool of potential executive directors. A few are seen who move up through the HR role, but they need to broaden their experience to become qualified, perhaps at divisional CEO or MD level. Nothing in the DNA that is inhibiting HR from aspiring to a board role."

Chair, financial services

"No, but would be concerned if they see themselves as spokesmen for people rather than the business as a whole because they need to be cognisant of all stakeholders' interests."

NED, financial services

The lack of basic financial knowledge and commercial experience was also mentioned in this context:

"Lack of financial smarts - if, when it comes to looking at pay and remuneration the HR community can't do simple maths, that really undermines their credibility and stature and is more than a bit worrying. We need to bring in people who are inquisitive but they need good analytical skills to bring data to life a bit more. Issues at board level tend to be around revenue and ROI, bottom line, costs and scaling ops and if you can't engage with that you can't take part and will be side-lined. Functional expertise is there but HR professionals are not fitting their piece into the jigsaw. They handle the execution but if they are not engaged in strategic conversations and are ignored, it is short-sighted as we need to take people with us as an integral part of the process."

NED, financial services

"Where the HRD attends as an observer and ought to be able to talk about anything but only ever comments on people issues, well I see that throughout the HR team. They only ever talk about people issues, not the branch network and digital strategy, despite the fact that they have knowledge of the whole business at their fingertips."

Chair, financial services

Physician Heal Thy Self

Some advice was offered:

"Yes, there is a lack of investment in training HR people for such advancement. If a good HR person is really lucky they will find a senior person to sponsor and promote them and ensure they have the right exposure and background."

CEO, professional association

"Experience suggests that they tend to see themselves as facilitators and use the word 'leadership' about others and not themselves. In HR core competences there is a role of leadership and they need to take up the gauntlet. They need to think about using power to make real change, but many HR people lack a sense of power, authority, credibility and belief in themselves; they concentrate on facilitating and creating opportunities for others."

Academic

"Would not have thought so, unless it is tendency to think of themselves as specialists, rather than as having a skillset to use for broader objectives. Some of the things applied to HR also apply to accountants and other specialists. After all, you can't save your way to success, you have to be proactive and make things happen. A good HR strategy like a good finance strategy is integrated with overall strategy."

CEO, third sector

"Nothing inherent in the profile per se, more a matter of the individual; the profile requires skills which are actually very useful and add value at the board level, such as good EQ and being able to handle difficult issues in a mature way. In some instances, not being on the board can help with the HRD being a conciliator or intermediary or go-between, and in performing their role sometimes not being associated with a board decision makes it easier for them to execute the decision."

NED, financial services

Some respondents simply didn't see the need for HR at the boardroom table:

"Not needed on the board."

CFO, utilities



"If they are just HR specialists, then that is not useful. They need to be able to wear more than one hat, talk about business and not just the people agenda, think as a business leader first."

HRD, manufacturing

"They don't have experience of running a business, so that rules them out."

Chair, professional services

"No, just have not seen HR that was engaging at board level."

NED

An Alternative Viewpoint

And some interesting comments:

"Not necessarily, I think it is almost a self-fulfilling prophecy. HR people are the ones who have to deal with all difficult discussions around pay and performance and deal with exits. The nature of their day job means they get pushed in a certain direction, and at any given point they could be firing you."

CEO, financial services

"A challenge is that, unlike finance where it is all around numbers and accuracy, there is a lot more judgement in HR and we have a huge amount of data and we have not really effectively learned how to use that data and if we did that better it might help."

NED

"Business is obsessed with direct P&L experience and many chairs and CEOs are deaf to broader arguments about the contribution HR can make."

NED

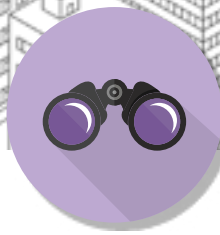
"No, it is about the mind-set of the CEO and chair, and how they view HR is very important. If they don't value HR then irrespective of how good the HRD may be, they are going to have difficulty taking that step."

CEO, business services

"No, they understand people, understand the company structure and HR knows where the bodies are buried, and that can be important; they are aware of some of the pitfalls and what not to do but the lack of broader business acumen is the main reason not put them on the board."

Director, technology





HEADHUNTER'S VIEWPOINT

A CONVERSATION WITH KAREN FRIZZELL, PARTNER, HUMAN RESOURCES,
HEDLEY MAY EXECUTIVE SEARCH.

Karen Frizzell advises on senior HR leadership appointments for corporate, financial services and professional services institutions. She has extensive experience of appointing chief human resources officers, senior generalists and specialists in talent, learning, organisational development, reward and other areas.

The challenges facing the boardroom

Great leadership – especially in the current context of accelerated and constant change – is critical for long-term success. Boardroom leaders must play the long game, although we know that incremental improvements and hard work alone won't cut it, particularly with shareholders. We also know that bold leadership, innovation and creativity are vital ingredients for success, so it's essential to find the right balance of skills, experience and knowledge at board and senior level.

The boardroom needs to set the tone of the company and this is best articulated through a clear purpose and strong values. Only then, can the CEO and the board create the best conditions for sustainable success – an environment in which everyone knows why they are there, where they're going and how they do things better. Having a clear purpose with values that are genuine means that everyone can take responsibility for exceptional talent development and performance; the two are not mutually independent. We only must look to the success of CEOs like Paul Polman to be sure of this; he has successfully promoted the concept of the purpose and function of business.

I think we are going to see a lot more of this and, in that respect, it's going to be helpful to have HR experience around the boardroom table. However, having a purpose

and mission is not the sole responsibility of the HRD – HR cannot be the sole conscience of an organisation; this is an old-fashioned and outdated notion.

But it goes without saying that good governance reads like an HR manifesto. We should therefore have more group HRDs in NED roles and we should continue to embrace the notion that HR experience is well regarded.

In a world where a company's purpose is becoming ever more important, it's surprising that many organisations still don't have clearly articulated values – and this means they struggle with leadership, talent management and succession planning. For young people – the next generation of the workforce – culture, purpose and values are more important than many of us realise. The board has to get this right to secure the brightest and best talent and consequently build a successful future. And a good HRD will equip the board with the tools to deal with this.

The role of the HR Director

I don't think HR Directors need to be on the board of their own companies to be taken seriously, but they should be able to hold their own at executive committee level. It goes without saying that they will be in command of the commercial levers of their business – we just don't see them lasting nowadays if they're not. Indeed, the danger now is that HRDs can become

so obsessed with being commercial that they become afraid to talk about culture or “doing the right thing.” This worries me more than being uncommercial. It has changed so much in the last ten years but there are parts of business, bits of financial services for example, where HR is still an order-taker. And it is the CEOs of these companies and the rest of the board who are to blame for this.

To garner the right level of experience in order that HR can take their seat at the boardroom table – as an NED – they need to understand what good governance is. It helps to have gone through a lot of change, working with challenging shareholders and to have had exposure to significant external influences and challenges. This is as important as it is to have had experience of working with thorny internal challenges. Experience outside of HR is particularly useful, along with a good grip of remuneration issues. An experienced Group HRD (of a plc) will understand good governance from a culture, leadership and executive reward perspective. They will also understand how to use technology as an enabler. And though ‘big picture’ is a tired phrase, it’s something that’s crucial for HRDs to see within their discipline, because this gives us the conditions and business imperatives that create the context for their choices.

Business leaders often only see the tip of the iceberg in terms of what excellent HR can do for them. The enlightened CEO and board, however, will work in constant collaboration with their HRD and this will allow the business to flourish.

We are dealing with mega-trends, from globalisation, environmental crisis and individualism to aging workforces and the constant force of digitisation and technological convergence. The HRD should be working with the CEO and rest of the board on a people- and future-focused strategy to deal with this changing environment. HR Directors have a responsibility to promote their own brand and agenda, with more positive communication around why they’re here and what they bring to the table.

What is exciting is that we are seeing more HRDs become non-executive directors and this has partly been driven by Chairs and CEOs working hard (and rightly) to get more females at the top table – particularly if they can take on the Remco role. Commercial HRDs in NED seats, whether Remco chairs or not, can add extraordinary value and I am hopeful we will see more of this in years to come.

Hedley May is a specialist executive search firm, delivering expert advice to a worldwide client base. The firm has expertise in compliance & risk, finance & audit, HR & reward, legal & governance, marketing & communications, operations & cyber and professional services.

A STRATEGIC VIEW OF HR

We turned to strategy and asked respondents for any other thoughts on HR and its contribution to strategy.

“It pays to have HR as an integral part of the business, not as an afterthought or add-on; they need to be very aligned on strategy across the whole organisation, able to articulate the company strategy and how they add value.”

Director, financial services

“There is so much change on the horizon; the workforce of the future will look different and HR is in the position to advise on recruitment, training, change management and digitisation of data. All these things are happening and will change the workforce and workplace out of all recognition.”

NED, financial services

“If you have a good, strong head of HR embedded in the business, not sitting separately elsewhere in HQ, these professionals can really drive and shape the future direction of the organisation, but they need to understand the whole business. People with an HR background and with business start-up experience are invaluable as they understand the challenge of running a business and ensuring the organisation chooses the right people to drive strategy.”

Chair, financial services

“The world of work is changing at all sorts of levels, the growth of knowledge work, demise of contracts, growth of flexible work, changing aspirations, a different view of work - all those things at a macro level impact the social, economic, commercial and political environment in which HR operates. HR should be able to supply employee insights about what is happening in the world of work.”

CEO, consultancy

Some respondents had strong opinions regarding HR and its contribution to strategy:

“You see a whole raft of academic literature that tells us what works and doesn't but HR allow bad decisions to be implemented, such as silly bonus systems which are causing so much trouble now, when we have long known that bonuses create bad behaviour. If the HR fraternity want to be taken seriously they should challenge such things.”

NED, financial services

“If I were HRD I would want to think out of the box, to get academic and experiential credentials that allowed me to be more facilitative, and flexible so as to bring as much to the table to add value to the strategic mission rather than just managing employees.”

NED, financial services

“Clearly, they have a contribution to make but the board is not just about HR strategy; in fact, it is not always top priority.”

Chair, manufacturing

“Too often contribution to strategy from HR is planning on how to execute, but there is a contribution to be made much earlier around where the organisation is and where the external environment is going. We forget that candidates and employees are also customers, so HR should have some really valuable insights for marketing. Reputational risk is part of it but also a realisation that there is a bigger and bigger overlap between the people agenda and the customer agenda in real time.”

NED, manufacturing

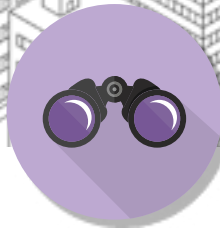
“People are a crucial part of strategy, but I have not seen HR contributing outside of talent retention and recruitment. Particularly in respect of the technical challenges we face HR should be more to the forefront in the future. It is an obvious area for them.”

NED, retail financial services

“We are engaged in a talent war so HR is fully engaged in everything we do, and since we don't make stuff, an HR person is automatically involved in the decision-making process because we rely on our knowledge workers.”

CEO, financial services

The HR agenda needs to be based on a strong business case and that is only possible if the HRD really understands the commercial realities and is just as comfortable talking about costs, profit and strategic risk management as talking about reward or talent.



HEADHUNTER'S VIEWPOINT

A CONVERSATION WITH LISA GERHARDT, PARTNER, HUMAN RESOURCES PRACTICE,
SAVANNAH EXECUTIVE SEARCH AND INTERIM.

Lisa Gerhardt is a prominent voice in the executive search industry, with nearly 20 years' experience. She leads Savannah's Human Resources Practice where she specialises in senior HR appointments, bringing a deep expertise in cross-border recruitment and an extensive network to meet the complex talent requirements of multinational organisations.

THE CHALLENGES FACING THE BOARDROOM

Big issues at the moment include Brexit, of course, but different sectors face different challenges.

Disruptive technology, online competition and financial challenges are all issues of the moment. Talent is always in short supply and there are demographic issues that affect skills shortages in some sectors.

THE ROLE OF THE HR DIRECTOR

HR is addressing the issues around employer brand – it has to because there is so much more visibility now. Organisations look after that part of their talent strategy with varying levels of sophistication, but it is a strategic imperative within HR. Recent research suggests that top objectives for HR are change management, leadership and high-potential development, engagement and retention, culture.

HR is there to bring these issues to life for the board. It needs to collate and use the data to make the case for robust EVP and talent strategies.

In terms of HR and the board, I'd say that 99 per cent of the time HR will be on the executive committee. Occasionally you see HR reporting to the COO, but that is not seen as acceptable to the HR population, and it often denotes an organisation that is not forward thinking and is not thinking about the people agenda. A good HRD will want a role that reports to the CEO.

A good HR leader has a massive role to play as an executive committee director or as an NED, probably maintaining a really strong relationship with the CEO. The HRD is the one who can hold up a mirror to the leadership team and probably has a level helping of EQ, and so can act as the conscience of the organisation. Most NEDs tend to be taken on because they have experience relevant to the Remco, and that tends to be the reason why boards think they need an HR person.

An HR leader should be able to facilitate a high performing board. The HRD has a big contribution to make as part of the board support team and as the person holding the organisation true to its purpose and intent because an organisation's strategy is only deliverable through its people. If leadership is side tracked under pressure away from this purpose then the organisation will suffer and could lose good people. Its culture could also be damaged.

The contribution of HR at board level is absolutely indispensable, although it is not always seen that way. These days savvy HR leaders, perhaps because they need to prove they are as valuable as other board members, are much better at data analytics and demonstrating the value of their function.

HR leaders are a lot more commercial now than perhaps they were historically, although sometimes they are not as externally focused as other functional leaders. They understand the internal dynamics and challenges but don't always have a depth of understanding of the competitive external environment. It is still not that common to find HR leaders who are externally focused and understand the risks and changes in the market, and have a strategic overview of the whole environment.

An HRD looking for a non-executive role needs to demonstrate very strong commercial awareness, ideally having had some sort of operational or commercial role in some other function. That is really helpful and adds credibility. Good financial acuity is not always on HR's agenda but people in the function need to be able to understand this area. They also need to understand the external market.

Taking on additional responsibility beyond HR is a good way to prepare for a board role. HRDs need to demonstrate the sophistication to manage difficult and complex stakeholders, as well as the EQ needed for decision-making, and to Influence, support and have an impact with the CEO, which is what most aspire to.

Organisations face challenges on all fronts, in particular the different shape of the workforce we will see in the future, which will impact on strategy. We need HR leaders who can lead in dynamic and challenging environments. The people agenda is predicated on the overall strategy.

HR should articulate what the talent strategy for the future should be, to position the organisation in the new world of work. Business models are changing, and changes in markets and technology will bring HR more to the fore.

Take AI and how that is going to be used in our organisations, with predictive analytics, there are a lot of big decisions to be made about how you use the data and manage the issues thrown up by the algorithms. Will CEOs know how to use that data and understand the people implications? Such wide reaching changes in the environment will affect culture and engagement.

The people agenda often falls behind the curve when there is pressure on prices, competition and new entrants into a market. Under pressure, the board tends to go to the point of most pain and deal with it, in other words to focus on fire fighting. In the future HR will have much more data to use to demonstrate the quality of employees' performance and how they make a real difference to effectiveness and productivity.

An MBA is a useful qualification for an HRD. I wish there were more commercially savvy HR leaders on boards to be able to contribute to more than the typical HR agenda. Good HR leaders have a whole myriad of skills and expertise that they can bring to the table and more chairs should think about that broader HR expertise and the value great HR can add.

Savannah is a global executive search and interim management firm.

CURRENT BUSINESS ISSUES FACING BOARDS AND COMPANIES

In addition to our very specific questions about HR in the boardroom we asked about the issues being raised in the boardrooms of the UK.

Brexit was mentioned by a number of respondents but was by no means the only area of concern. Other issues raised by many respondents included skills shortages, risk, cyber-security and governance/regulatory issues.

Uncertainty is a condition that respondents have become used to working with. However, Brexit and the regulatory consequences have added a whole new aspect to the volatility and uncertainty that businesses were already experiencing, so this topic is high on the corporate agenda.

Business and Brexit

Last June, Britain voted to leave the European Union, and over the next few years our politicians will make decisions that will affect not only our immediate future, but the future of our children and grandchildren.

Professor Nick Crafts of Warwick University says no one can know exactly how much the EU directly benefited Britain but that "a reasonable estimate" is that gross domestic product is 10 per cent higher than it would have been if Britain had not joined. It is much harder to judge how leaving the EU is likely to impact our economy.

There's a lot at stake and some exciting opportunities – as there are with any major change. As Britain prepares to leave the EU it is vital that our government makes the right decisions to secure the future of our society and economy.

Our conversations with business leaders suggest that they are committed to making the best of Brexit, to dealing with the challenges it presents and exploiting the opportunities. Some of our respondents, however, seem to have little confidence in the ability of our political leaders to make the right choices. Summing up this attitude, one NED and marketing expert observed: *"The scary thing with Brexit is that even politicians don't have a clue how difficult it is going to be and what a pain it is going to be for business."*

The key challenges facing the UK economy include our poor productivity levels and the associated people management issues. We have major skills shortages in industries such

as construction, engineering, hospitality and IT, where EU migrants provide the vital skills that are in short supply in the workforce. As Kevin Green chief executive of the Recruitment and Employment Federation (REF), said in May this year: "Demand for staff is growing within all sectors and regions of the UK, but there are fewer and fewer people available to fill the vacancies."

The war for talent could well intensify, so effective talent management strategies have never been so important, and the UK will have to review its investment in training and development.

Smart organisations place significant emphasis on creating a credible employee value proposition (EVP) to ensure their employees are engaged and motivated.

Matthew Taylor, head of the Royal Society of Arts (RSA), commissioned by Theresa May to undertake a review of modern employment, called on policymakers and employers to make all work "good work", which he defines as "fair and decent, with scope for development and fulfilment".

HR will have a key role to play in managing both the immediate personnel related implications of Brexit and the long-term business strategy planning. As Peter Cheese, CEO of the CIPD, says: "Now, more than ever, we need government and businesses to put people and skills development at the heart of their thinking."

Cyber Security

This was mentioned by almost all our respondents as a significant topic on the corporate agenda. It is hard to think of a business venture that does not depend on digital processes, data and systems. The issue of security has an impact on all aspects of a business including strategy, business development, supply chain, staff and customer experience.

The ransomware attack that wreaked havoc in nearly 100 countries and disrupted the National Health Service in May demonstrates the potential financial damage and

reputational risk of cyber crime. The chaos at London's airports over a bank holiday weekend serves as a further reminder of our reliance on technology.

Importantly, from the perspective of the board, investors are increasingly concerned about cyber security. The board needs to formulate a realistic picture of the areas where the business may be vulnerable, including suppliers, service providers, partners, cloud services, data feeds, staff and customers.

A study by cyber security firm CGI, conducted by Oxford Economics, found that companies' share prices fall by an average of 1.8 per cent on a permanent basis following a severe breach where large amounts of sensitive information are lost.

Around 75 per cent of security threats originate from within the organisation, with employees being the main culprits. Government research confirms that staff breaches are often the result of genuine mistakes by a user.

Plainly HR has a role to play in ensuring employees are aware of the impact their attitudes and behaviour have on the organisation's security. Changes in the way we work mean that remote workers, part-timers and contractors have access to critical information and systems as organisations and individuals connect and interact from unsecured devices in a range of locations. These changes increase the risk of data leaks and breaches, with greater interconnectivity in some circumstances leading to new risks emerging.

The trend for employees to use personal devices for work purposes introduces the possibility of company cyber security policies being undermined. While flexible working may be cost-effective and offer increased productivity and operational agility it also highlights vulnerabilities in keeping software up to date, using effective security practices and safe data storage.

All HR staff should be trained to understand cyber security and ensure that employees are in a good position to prevent attacks and, in case of an emergency, respond effectively to safeguard the business.



HR HAS A VITAL ROLE IN PREPARING THE ORGANISATION AND EMPLOYEES FOR THE NEW WORKPLACE. THE PACE OF CHANGE REQUIRES A NIMBLE, FLEXIBLE AND VERSATILE WORKFORCE THAT EMBRACES INNOVATIVE WAYS OF WORKING AS A MEANS TO OPTIMISING PERFORMANCE, RATHER THAN BEING FEARFUL OF THE FUTURE. CENTRAL TO THIS IS A NEED TO ENCOURAGE AND SUPPORT EMPLOYEES IN ENHANCING COMPLEX SKILLS IN COLLABORATION AND CREATIVITY.



Helen Pitcher OBE, Chairman Advanced Boardroom Excellence

Digitalisation and Disruptive Technologies

"The best way to predict the future is to create it."

Peter Drucker

Another challenge mentioned by many respondents is that emerging technologies have the potential to truly reshape the world in which we live and work. Technology is evolving at a terrific rate and the HRD's role has, by and large, been to focus on sourcing talent to support digital products and services:

"Artificial intelligence is a concern; organisations want to stay ahead and are also thinking from the point of view of impacts on the workforce and long-term effects. The digital skills shortage is an issue."

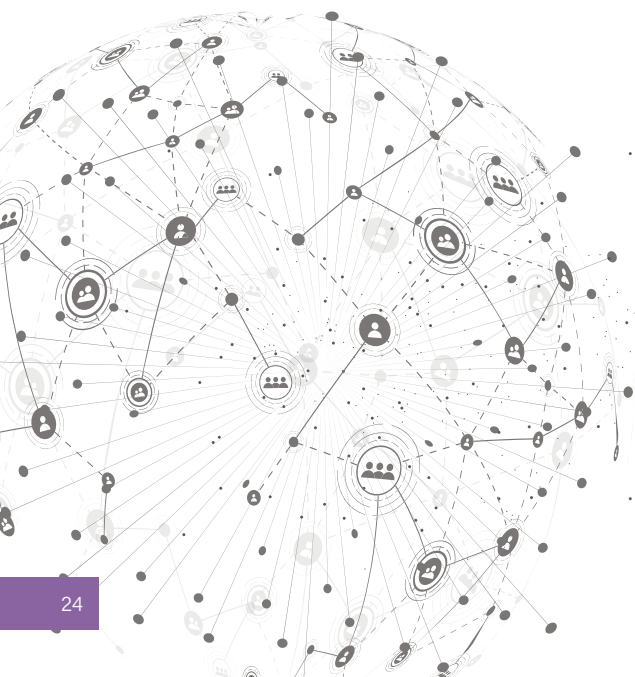
NED, financial services

"Determining what particular versions of digital disruption are the biggest challenges to our business model and strategy and working out what that implies for the structure of the future organisation and skills recruitment and retention."

NED, public sector

The workplace and the workforce are changing fast and we need to consider more than talent in our approach to how we work and how we implement new technologies in a sustainable way. Business leaders need to understand which technologies will matter to them and how consumer behaviours are likely to change, and then prepare appropriately.

Whether it is a tiny app or a new device that changes the face of the market, we will need organisational strategies to cope with evolving technology so we can exploit it to improve performance. We need to be scanning the horizon for game changing innovations that create new products and services so we have the business model that allows us to tap into new markets.





AI and other innovations offer a world of opportunity, enabling many in the workforce to focus on more creative and interesting work, while interacting with technology in ways predicated on a fundamental shift in our relationship with work and the workplace.

According to the 2017 *Deloitte Global Human Capital Trends* survey, which tracks the top trends shaping the agenda for HR and business leaders, only 16 per cent say they are ready to manage a workforce with people, robots and AI working side by side.

In our conversations it seemed that HR respondents were very much alive to these issues, interested in the opportunities and challenges they pose and thoughtful about how to manage them. HR understands the need to align workforce and HR strategy with the overall digital business strategy.

All areas of the organisation will be affected as sophisticated automation changes the way we work. While robotics and AI replace repetitive work, we will see a greater need for creativity and social skills and a focus on design and customer service. As automation advances workers will take on higher value roles that require data analysis and problem solving skills.

Harnessing the potential of new technologies to improve productivity will rely on people management processes that will foster the skills needed in a competitive marketplace. We will need to organise work and the workforce in new ways and manage a diverse and flexible workforce from a variety of non-traditional talent pools. The Economist Intelligence Unit report on 'The Future of Work', suggests that environments that appear creative and support creativity are the ones that people aspire to be part of and are therefore more likely to be successful.

"The future is not going to be a dystopian world where there are sentient autonomous machines doing what we don't want them to do," says Guruduth S. Banavar, VP of Cognitive Computing at IBM. "People and machines will complement each other in a way which will help them achieve what neither could if left alone."

That said, it is significant that the World Economic Forum 2016 Future of Jobs report suggests that only 53% of CHROs surveyed are reasonably or highly confident regarding the adequacy of their organisation's future workforce strategy to prepare for these shifts.

Risk and the Human Factor

Another area mentioned by almost all respondents: human resources are a source of risk and are important to the ultimate success or failure of any business, affecting most production, financial, and marketing decisions.

Plainly, HR has a role to play where employees are a source of risks, including:

- skills shortages
- employees doing unsatisfactory work or refusing additional responsibility or hours
- key employees leaving after organisational investment in their training

In addition, directors are conscious of the increased risk of litigation posed by the growing complexity of employment and discrimination law, cultural sensitivities in the workplace and the employment challenges inherent in the management of a diverse and fluid workforce on a variety of alternative contracts.

Those same people are crucial in handling risk, formulating creative solutions to business challenges, expending discretionary effort in the course of their work, and advocating for the employer in attracting high quality applicants or when interacting with customers.

In respect of organisational risk, important people issues that impact on business results include succession planning, building talent pipelines, reward management, corporate culture and ethics. Risk is inevitable and organisations have a moral and legal obligation to ensure the safety and wellbeing of customers, employees and others who come into contact with their operations.

Business behaviour impacts on real live people. As John Hofmeister, retired president of Shell Oil Company and former CHRO has put it: "Unfortunately, in the hydrocarbon industry, if you don't take the HR profession seriously, people die."

A key objective for HR directors is managing risk by ensuring that an excellent and properly motivated executive team is in place to lead the business.

THE STRATEGIC LANDSCAPE OF HR

“What could possibly be more important than who gets hired, developed, promoted, or moved out the door? Business is a game, and as with all games, the team that puts the best people on the field and gets them playing together wins. It’s that simple.”

Jack Welch, 2006

A few respondents had clearly had a poor experience in terms of the HR staff they had worked alongside, but they were in a minority. The contribution and potential of high performance HR was widely recognised.

A robust and effective HR function is critical for an organisation’s long-term development, and is expected to contribute to the business as a whole. Alongside a broad knowledge of HR, executives in the function are expected to take a holistic view of the business and exhibit the courage to question decisions and take an advisory role.

The HR director supports the business agenda and plays a crucial role in shaping that agenda. Change management, business efficiency and talent pipeline are areas where HR is proactively leading the drive to do more for the business.

As experts on people, work and change, the HR profession can play a significant role in championing Taylor’s “good work” and encouraging accountability, good ethics and sustainable practice in the workplace. Staff expect their CEO and board to set the leadership tone and build a healthy culture from the top that respects individuals’ legal rights and their wellbeing. The board is responsible for ensuring employees understand they are stakeholders in business success.

Culture is central, as Peter Cheese of the CIPD, points out: “Positive and healthy cultures are true to their stated values, give voice to people, engage them, and create the best environment for people to perform in, thereby creating value and competitive advantage. However, as recent corporate scandals have shown, when cultures turn toxic trust breaks down and performance, wellbeing and reputation suffer. This is why boards have a fundamental role in understanding the cultures of their organisation and how culture is changing or evolving, as well as leading from the top in the behaviours and values they demonstrate. They must also hold management to account to ensure that culture, values and behaviours align, and the decisions the organisation makes enables it perform financially, ethically and sustainably.”

A number of HR respondents, in particular, raised the issue of employer branding which is associated with values and the unique story of an organisation that sets it apart in the eyes of talent, and is an effective way to attract top candidates. However, interest in employer branding is not confined to HR. PwC’s 18th Annual Global CEO Survey found that 73 per cent of CEOs are concerned about the availability of key skills, while a 2015 article in the *Harvard Business Review* called for leaders to focus on strengthening their employer brand if they want to win the “new war for talent”.

Communication, motivation, leadership and a shared or “mutual” vision of the organisation and its objectives are therefore crucial in developing and strengthening commitment and engagement, which is predicated on an “identification with the goals and values of the organisation, a desire to belong to the organisation and a willingness to display effort on behalf of the organisation” (Mowday, R.T., Porter, L.W., & Steer, R.M. (1982). *Employee-Organization linkages, The Psychology of commitment, Absenteeism and Turnover*. New York: Academic Press).

Corporate Governance

The Financial Reporting Council’s (FRC) UK Corporate Governance Code, published in 2014, positioned the board as a central element for establishing the culture of the organisation, maintaining ethics and values against which the organisation should practise, and setting the “tone from the top”.

“The governance challenges are broad, although they do include financial accountability and probity but it is also about reputational matters and communication and balancing different interests and engagement and participation.”

Academic

Good organisational governance is essential to ensure that business is conducted with due regard to the interests of all stakeholders. Responsibly and ethically run organisations are transparent in how they live up to governance principles and how they invest in and develop their workforces for the long term.

Shareholders, regulators, customers, employees and prospective applicants are increasingly aware of the value and importance of a positive corporate culture. There is a growing media focus on corporate behaviour, and regulatory interest in risk management, while social media allows customers and employees to share their views on the organisation with a huge audience.

The CIPD recommends that boards should take account of the culture of their organisations and the wellbeing of their workforce, and take evidence-based steps towards evaluating, understanding, measuring and managing the culture of their businesses.

An organisation's human resources are of critical importance, and the skills, knowledge and involvement of employees have strategic importance. So, HR is an increasingly important component of organisational strategy as there is growing recognition of the high returns from greater worker involvement in the planning and execution of work and from worker self-regulation. This recognition is driving a trend towards more democratic styles of management.

The contribution that employees are expected to make to the achievement of business objectives involves a balance between regarding the workforce as a 'factor of production' to be managed in a rational way like any other economic factor and a more holistic approach that views workers as valued assets and 'a source of competitive advantage through their commitment, adaptability and high quality of skills performance' (Legge, K. (1995) *Human Resource Management: Rhetorics and Realities*, Basingstoke: Macmillan. Reissued in 2005).

ADVANCED BOARDROOM EXCELLENCE REFLECTIONS

CALL TO ACTION

The business world faces a whole series of challenges, while the economic situation remains uncertain. Business models and measures of performance are changing. Stakeholders and activists are moving a range of issues to the top of the agenda, new social media are changing relationships with customers, and there is a crisis of trust in leadership that extends beyond bankers and politicians to all leaders.

HR professionals are in a unique position to work with leaders to shape corporate culture and behaviours to build sustainable and adaptable organisations. HR leaders acting as advisers to the board leverage technical skills and understanding of how to engage the workforce, and evaluate how individuals, teams and the company perform so as to be able to bring problems to the board's attention.

It seems sensible not to place too much emphasis on whether HR should be on the board as an executive function. There is a plethora of ways in which HR can influence the organisation and the board – helping to guide the chief executive and helping to educate the board to live the company's values.

HR can help organisations achieve better strategic business outcomes by making connections between work and workers and by educating business leaders about the connection between people success and business success. The boardroom can be an intimidating place, so exposure to committee work and boardroom procedures alongside coaching will pay dividends.

HR specialists have the opportunity to transform their role, leveraging their expertise in people management to place themselves at the heart of the debate on strategic direction and functioning as an integral part of effective business execution.

We are operating in a tough environment and need to get the most out of employees in order to keep business moving forward. Compounding this challenge, organisations now often need to get more out of fewer people.

If the HR director is to play a more strategic role then the relationship with the CEO is crucial. As a function HR needs to increase its influence so that it is invited to participate in discussions of all areas of the business as a matter of course. In effect the suggestion is that the HRD should act as a thought partner to the CEO.

HR professionals are generally expected to have high levels of emotional intelligence, and perceptiveness about people, alongside good communication skills. The HRD who is a trusted advisor can provide feedback to the CEO about how the prevailing leadership style affects the executive committee, along with accurate insights as to what the organisation as a whole is thinking about the CEO.

A number of our HR respondents mentioned the role of HR in managing executive performance and development. Often HR is tasked with ensuring that individuals in the senior management team are working effectively, and that the chemistry of the team works well. In other words, HR is not just responsible for executive recruitment, but also for preventing team dysfunction.

At the same time, company chairmen and non-executive directors are increasingly looking to HRDs to provide insights into the people agenda and how it relates to the overall performance of the business.

"Directors need all the help they can get, so they are particularly impressed by senior managers who consistently present information and explain its implications in a coherent strategic context", Nadler and Nadler, *People + Strategy*, Spring 2015.

Many respondents mentioned skills shortages and talent management as urgent issues. This suggests we need to see the HR function adding significant strategic value in predicting the skills that will be needed and employing analytical tools to spot talent trends and skills gaps. In addition, the function needs to provide insights that can help organisations align their business strategy with changes in demand and supply.

HR needs to think in terms of business outcomes and to present initiatives around things like engagement or retention as paths to business outcomes. HR is in a position to have a view across the biggest challenges facing any organisation - leadership issues and how to allocate people - so it is a vehicle for changing the growth trajectory of an organisation. Transformational HR is an enabler, not an administrative function.

HR AS NEDs

But HR as a profession seems to lack confidence and belief in itself. Board leaders have to help senior HR practitioners become more confident and to have the courage to speak up. Chairmen and headhunters tend to be very risk averse in terms of board appointments and there is a case to be made for encouraging senior HR staff to undertake NED roles in order to forward their development:

"There is a journey for HR within the business arena but they need the confidence to drive it. It takes a CEO who understands the contribution that HR can make, a boss who encourages them, as they tend to be too busy talent managing everyone else and not training themselves for advancement."

NED, financial services

"Sometimes it can be true that HR are not seen as having depth and breadth of knowledge, I think we also have a responsibility to ensure we are growing people. HR need commercial exposure, and we are not doing enough to up-skill them."

CEO, business services

ACTION THIS TODAY!

Chairman

- Recalibrate and open their thinking to meet the diversity and disruptive business challenges facing their organisations
- Enable and shape a shift in emphasis from narrow financial thinking to the broader strategic landscape
- Map board capabilities to future strategic needs
- Instruct headhunters to find the best strategic HRDs as potential NED candidates

CEOs

- Invite HR leaders to participate in discussions on all business issues, not just those on the HR agenda
- Encourage senior HR staff to take on NED roles
- Enlist HR support in building a healthy culture and strengthening the employer brand

Headhunters

- Review the opportunities to engage in more strategic conversations with the senior HR community
- Actively consider senior HR practitioners for NED roles
- Become less risk averse when reviewing HR people for NED Board shortlists

HRDs

- Use existing strategic functional reach to broaden the business strategic conversation
- Use cross-functional, including short term moves, to gain breadth of business experience
- Gain more visible financial awareness and skills in data analytics, consider studying strategic financial education, such as Corporate Finance / M&A courses or an MBA or similar qualification
- Seek to exert influence from outside the boardroom by operating as committee members and working with the CEO and other board members
- Develop the confidence and self-belief needed to participate in deliberations on business strategy and to challenge the CEO's thinking

