Compensation committees and boards recognize that attracting, motivating and retaining employees to drive corporate goals has always been among companies' most complex and costly strategic challenges. They are also increasingly aware that decisions around the level and design of performance-focused pay programs can have an unanticipated impact on employee culture, attitudes and, ultimately, long-term performance. Moreover, in the current economy many companies are challenged by a mismatch between many key jobs and available talent as well as new issues related to outsourcing and employee relations.

Like their legal and financial counterparts, HR heads are well-positioned to contribute a key alternative perspective to directors. This article will discuss what qualities are most needed by an HR head to serve as a strong and effective voice in the boardroom.

THE HR VOICE IN THE BOARDROOM

By David N. Swinford, Pearl Meyer & Partners

HR executives need five qualities to serve as strong and effective voices in the boardroom.
A strong HR head will alert the board if a particular move might trigger an employee-relations disaster and suggest alternatives without being confrontational.

1 | Have a Deep Appreciation and Understanding of the Complex Issues Around Management Development and Succession.

Boards recognize that effectively managing the selection and successful transition of executive leadership is among their most important responsibilities. The HR function is uniquely positioned to recognize potential succession pitfalls that might be overlooked by directors and other executives, particularly when the company is not expecting an imminent change in leadership or historically has experienced low executive turnover. In such scenarios, retention might not seem an obvious concern. However, the HR department is uniquely positioned to assess the ongoing need to: protect against the loss of internal talent by continuing to pay appropriately and competitively against the market; provide an ongoing balance between compensation to the CEO and other key officers; and recognize key long-time executives for their ongoing contributions with career development and long-term capital accumulation opportunities.

The HR head also should be an active participant in the board’s discussions around management development and succession planning as well as in the compensation committee’s meetings with the most senior succession candidates. The HR department should advocate that the board make succession planning a meaningful consideration in the CEO’s performance evaluation, including a requirement that top internal succession candidates be developed through opportunities and assignments that expand their executive experience. In a major software firm whose management team had risen together through the ranks, human resources was instrumental in helping the board and CEO develop a plan to infuse new ideas into the company by filling two C-suite openings without outside hires, rather than following the accepted route of promoting from within.

2 | Have an Awareness of and Sensitivity to the Different Ideas and Options of Employees at All Levels of the Organization, From the Executive Suite to the Rank and File.

The HR function is naturally best positioned to provide an organization-wide perspective on people issues. Presented with a strategic recommendation by the CEO, directors want insight into how it will be perceived within the organization, whether by the entire population or specific business unit or division. Are there potential ramifications to morale, performance or turnover that might undermine the recommended action’s success? A strong HR head will alert the board if a particular move might trigger an employee-relations disaster and suggest alternatives without being confrontational. For example, if members decide to eliminate the 401(k) match for employees, the HR head might suggest that also ending executives’ nonqualified deferral matches would preserve a sense that everyone is sharing the pain. Internal equity considerations are especially important when boards deal with executive retention issues when companies are under duress and have limited resources.

3 | Show a Willingness to Step Forward and Provide a Reality Check When Seemingly Good Proposals From the CEO or Board Are Wrong for the Organization.

Smart directors know that many top managers are more apt to tell their chief executives what they want to hear than to share their candid impressions and opinions. Just as the CFO and corporate counsel are expected to provide a reliable counterweight on the chief executive’s recommendations from a financial and legal standpoint, human resources can provide a candid, independent perspective on HR issues. A good HR head will articulate and provide a framework for analyzing that input as well as recommend creative solutions. Similarly, sometimes an individual director will push the board to adopt a particular program or plan of action. Rather than the CEO, it may fall to the HR head to explain the impact the program would have on the current organization. Whatever the board’s final decision, the HR department helps directors perform a robust, trust-but-verify type of review.

4 | Have the Tact to Navigate the Role of a Strong and Effective Go-Between for the Board and the CEO.

Human resources can play a valuable role in helping maintain good relations and avoiding acrimony between the board and management or even among directors. Emotions sometimes run high in the boardroom, particularly if the CEO is wedded to driving a specific strategy, pushing a favored succession candidate or seeking corporate funding for a pet charity. Additionally, some decisions that come before the board and personally affect the CEO can be difficult to discuss candidly.
If the board decides to oppose a proposal that the CEO is pushing or seems emotionally committed to, directors may prefer to avoid a direct confrontation with the lead director or committee chair. It can be less threatening for the HR head to approach the CEO, point out where the plan might have shortcomings and suggest alternatives. Of course, the HR head must not jeopardize his/her relationship with the CEO when acting as a go-between.

5 | Have a Thorough Understanding of the Critical New HR Issues Boards Are Facing and How Those Issues Can Be Best Approached.
Like every high-level executive in the boardroom, good HR professionals know the numbers and can discuss their function as a cost and asset. They bring to the table in-depth knowledge to apply those analyses to the nuances of deploying and motivating people to drive corporate goals. This is especially critical given the increase in regulatory, legal and judicial activity around HR issues as well as new challenges associated with the war for talent, employee relations, relocations, layoffs and outsourcing. Companies with high-prominence salesforces or sophisticated research and development functions need HR heads who can guide compensation committees through the application of incentive programs to employees who may have different needs or motivations than the rest of the population. As companies become more global, HR heads must help directors who may all come from the American business community understand the cultural contexts of rewards systems in other locations. Having a focused HR perspective on these issues is essential.

Conclusion
As directors continue to seek out and incorporate a diverse range of perspectives, the HR function is well-positioned to demonstrate its value to the board and company. To be effective, HR directors need to develop the qualities needed to provide a strong voice in the boardroom. At the end of the day, the board's sustained ability to build and maintain a talented workforce will be more critical to the company's long-term performance and success than any individual decision made around compensation programs.

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