

What Traits Compensation Committees Need in an HR Head

By David N. Swinford



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In the current governance environment, chief executives are no longer assumed to dominate the decision-making process in the boardroom. Rather, the trend among directors is to seek out additional information and alternative perspectives from other advisors, including members of senior management.

Strong and knowledgeable human resources heads are increasingly taking a place at the table alongside their legal and financial counterparts, serving as harder-edged partners in strategic planning and other key decisions. One reason is that employees are one of a company's most expensive and complex resources to manage. Experience has shown that major decisions involving compensation and other key employment policies can have unexpected but far-reaching effects on employee culture and attitudes—and, ultimately, on corporate performance. Moreover, in the current economy directors are grappling with serious new human resource challenges, including a critical mismatch between many key jobs and available talent, and difficult issues related to outsourcing and employee relations.

Boards should look for the following characteristics in a strong and effective HR head who is capable of providing them with a knowledgeable and independent voice on compensation issues.

1. Someone highly attuned to the importance and challenges of management development and succession

Boards recognize that effectively managing the selection and successful transition of leadership is among their most important roles. The HR function is uniquely positioned to recognize potential succession pitfalls that may be overlooked by directors and other executives, particularly when the company is not expecting a change in leadership or is experiencing relatively low executive turnover.

In such scenarios, retention might not appear an obvious concern. In fact, HR is aware of the ongoing need to protect against the loss of internal talent by continuing to pay appropriately and competitively against the market; to provide an ongoing balance between compensation to the CEO and other NEOs; and to recognize key longtime executives for their continued contributions with career development and long-term capital accumulation opportunities.

The head of HR also should be an integral 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. HR 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.

2. Someone with a finger on the pulse of employees at all levels, not just the executive suite

Companies today are keenly aware of the competition for talent in key skill areas, and the need to foster employees' confidence in the company's future and in being treated fairly. Boards recognize that the HR function is best positioned to provide an organization-wide perspective on internal and external issues, and how a particular decision might affect morale and motivation. A major new strategy might be very well thought out at the top level of management, but poorly conceived in terms of its impact on the rest of the organization. Presented with a strategic recommendation, directors want insight into its likely reception within a specific business unit, division or the overall employee population. Are there potential ramifications to morale, performance or

turnover that might undermine its 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 it is necessary to eliminate the 401(k) match for employees, the HR head might suggest that ending executives' non-qualified deferral matches as well would preserve a sense that everyone is sharing the pain.

3. Someone who will provide the board with a reality check, either for its own or a CEO's ideas

Smart directors know that many top managers are more apt to tell their chief executives what they want to hear, rather 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, HR should provide a similarly candid, independent perspective on human resource issues. A good head of HR will not just articulate and provide a framework for analyzing that input, but provide creative solutions. Similarly, sometimes a director will push the board to adopt a particular program or plan of action, primarily because it worked well at another company where he or she served as an executive or board member. Rather than the CEO, it may fall to the head of HR to explain the very different impact the program would have on the organization. Whatever the board's final decision, HR will help ensure that members have applied a more robust, "trust-but-verify" type of review.

4. Someone who can act, as needed, as a go-between with the CEO

The HR head can play a valuable role in helping to maintain good relations and avoid acrimony between the board and the CEO, or even among directors themselves. Emotions can run high in the boardroom, particularly if the chief executive is wedded to a specific strategy or position, such as pushing a favored succession candidate or corporate funding for a pet charity. Additionally, some decisions that come before the board personally affect the CEO and can be difficult to discuss together candidly.

If the board decides to oppose a proposal that is being pushed by the CEO or that he or she seems emotionally committed to, directors may prefer to avoid a direct confrontation. It is less threatening to have the head of HR approach the CEO and point out where the plan might have shortcomings, and suggest alternatives. To be sure, it's a difficult line for HR heads to navigate: being strong, yet sufficiently tactful not to jeopardize their own relationship with the CEO.

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5. Someone knowledgeable on the critical HR issues boards are facing

Like any other corporate executive who belongs in the boardroom, good HR professionals know the numbers and can discuss their function as a cost and asset. Equally important, they can bring the analysis down to the nuances of how to deploy and motivate people to drive corporate goals.

In our corporate structures, the chief financial officer and corporate counsel have a formal relationship and responsibility to the board, independent of the chief executive. While there are no such requirements for human resources, there has been an ongoing 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. Boards feel a growing need to hear from top managers other than the CEO, and the most effective boards are reserving a seat at the table for HR to join the decision-making process.

The continuing professionalization of the HR function brings with it increased responsibilities and challenges, but also greater opportunities to garner the respect of directors as independent professionals and valued members of the executive team. **D**