Pearl Meyer

ADVISOR BLOG | JUL 2023 | NACD BOARDTALK

Creating Space on the Board for a CHRO



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“Our people are our greatest asset” is a nearly unanimous sentiment in corporate America. And yet, in a review of the largest publicly traded companies in the United States, Pearl Meyer found that less than half (41%) list human capital management (HCM) or similar expertise or experience in their proxy-disclosed board skills matrices. Furthermore, our review of the proxy-disclosed biographies found that even fewer board members cited specific HCM-related experience or expertise. So, if retention, development, employee engagement, corporate culture, and the like are truly mission-critical, why isn’t HCM expertise cited more frequently as a key criterion for board member selection? Here are three potential explanations, each of which may have waning validity.

1. HCM is management’s job, isn’t it?

In the past, most compensation committees and boards limited their human capital oversight to the senior executive ranks—essentially, the CEO and their direct reports. Broader human resources issues were considered within management’s purview, and only rose to the board’s attention in a crisis situation. However, over the past several years there has been a growing number of compensation committees expanding their remit to include areas beyond the traditional duties. This includes issues such as succession planning, employee diversity, broad-based pay equity, leadership training and development, and corporate culture.

Why the shift? For many boards, the oversight expansion began as a risk-mitigation exercise. Board members reading media headlines about companies whose significant troubles stemmed from HCM-related issues (e.g., discrimination lawsuits, hostile work environments) began rightly asking, “Could this happen to us?”

Today, leading companies understand that best-in-class HCM practices can be a competitive advantage in attracting and retaining executives, employees, and customers. Directors with deep knowledge about how to build and motivate management teams to execute short- and long-term business strategies are in the best position to lead the

committee's expanded oversight.

2. CEOs are HCM experts, aren't they?

In a word, no. In the same way that having ultimate responsibility for financial reporting doesn't make all CEOs "financial experts," being at the top of a corporate organization chart does not make the CEO an expert in human capital management. There's no question that the most effective CEOs—particularly post-pandemic—are those with an ability to authentically connect with others. But even that interpersonal ability cannot make the CEO expert in the vast array of mission-critical human capital-related issues that will arise.

In the same way that the board's financial expert can engage in in-depth technical discussions with the company's chief financial officer (CFO) and independent auditors, an HCM expert on the board can interact with the chief human resources officer (CHRO) and outside advisors to ensure that recommendations are fully vetted.

Board members who bring a wealth of personal and professional experience to HCM discussions can round out today's need for strategic human-centered thinking at the top of the organization.

3. There's no room on the board for "single-issue" directors, is there?

In the past, boardrooms were populated almost exclusively by current and former CEOs and the occasional CFO. The thinking was that a group of CEOs would have the broad experience to collectively cover any of the issues a company and management team might face. The first crack in that theory came when the Sarbanes-Oxley Act required boards to have at least one certified financial expert as a member. This, along with the associated audit oversights, led to stronger organizations.

Over time, investor calls for greater diversity moved boards to consider non-CEO candidates. Lo and behold, board diversity is good for business!

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As markets and operating environments become increasingly complex, it is now routine for companies to set director search criteria geared toward filling specific expertise needs. Boards seeking directors with deep experience in cybersecurity, digital marketing, and global supply chains—chief information officers, chief marketing officers, and chief operating officers—are now common. And what we've learned is that the right subject matter experts turn out to not be single-issue directors at all. They've risen to the top in

their various fields because of an ability to quickly grasp detail, but not become mired in it.

It ultimately doesn't matter if a director has an accounting or a marketing background, as long as they are big-picture thinkers who bring multiple viewpoints together, thus adding value beyond one area of expertise.

It's Time to Expand Our Skill Set

Moving an organization from being overwhelmingly focused on the financial results to also focusing on the humans doing the work is more than a fad. Leading companies have come to understand that their people truly are their greatest asset.

We are in a new normal, where innovation, disruption, and geopolitical events upend the most carefully constructed business plans. Having an agile and resilient management team, supported by an engaged, like-minded workforce with strong institutional knowledge can be the X factor. How do we ensure that managing our human assets is a priority and provide the guidance to make it so? Perhaps it's time to make room on the board for a CHRO.

About the Author

Jan brings 30+ years of executive compensation and governance experience, advising boards and management on strategic human capital decisions tied to long-term value creation.

About Pearl Meyer

Pearl Meyer is the leading advisor to boards and senior management helping organizations build, develop, and reward great leadership teams that drive long-term success. Our strategy-driven compensation and leadership consulting services act as powerful catalysts for value creation and competitive advantage by addressing the critical links between people and outcomes. Our clients stand at the forefront of their industries and range from emerging high-growth, not-for-profit, and private organizations to the Fortune 500.