

Why Human Resources Talent Belongs On The Board

by Daniel Kaplan and Ronald Porter

For years, corporations have called their employees “their most important asset.” Now, board composition is catching up. Human resource chiefs are being tapped for more board seats, and for more than their HR experience. Their diverse backgrounds, as well as their top-level strategic and regulatory savvy, are proving a vital governance resource.

Gone are the days of Human Resources as a narrowly defined function. Today’s Chief Human Resources Officers (CHROs) are increasingly seen as astute business strategists able to bring human capital solutions to the challenges their companies face. They are doing so not just in brief PowerPoint presentations to the directors. More and more, CHROs are taking a seat at the board table.

A growing number of our board search clients are seeking top HR talent as potential board candidates. Five to ten years ago, they were seeking finance and audit talent. Now the focus has shifted to human capital, a trend that cuts across industry sectors. While having a CHRO on the board may not yet be the norm, we anticipate that in the next generation of boards, companies without such a voice will be the exception rather than the rule.

We asked a number of CEOs what they value in having HR talent on their boards. We also asked the CHROs themselves what they have to offer the boards they serve and, in turn, what they bring back to their own companies as a result of these experiences.

“If you really believe that people are your most important asset, then why wouldn’t you have some [HR] help at the board level?”

A slow, but steady, build. Human resources talent, of course, is not a new phenomenon to corporate

boards. Pressure to have the composition of boards better mirror society at large has prompted many boards to seek out more members who are women and/or minorities. Many of the best and brightest of these choices rose through the ranks. HR was one of the first corporate offices to see the highest of glass ceilings shattered. Even with these appointments, however, a lot of top HR talent remains untapped.

Since taking the helm at ConAgra Foods in 2005, CEO Gary Rodkin says its board has made a concerted effort to add members with a variety of professional backgrounds and perspectives, including HR. “If you’ve got nine, ten, twelve people on a board, I think there’s room for somebody who has at least some significant background in another core functional discipline. We always talk about how people are our most important asset—if you really believe that, then why wouldn’t you have some help at the board level?”

When CHROs join a board, they bring their core technical expertise, Rodkin says, but there is also the expectation that they have a good amount of exposure to the operating system of their own company. “If they’re good enough to run HR for a large, complicated organization, they probably have a wealth of experience that could be brought to bear in a board.”

This works in both directions. Board discussions and actions around strategic business issues are take-aways CHROs bring back to their home companies. This was the case at ConAgra when Pete Perez joined as senior vice president of Human Resources in 2003. He was promoted to executive vice president in 2007, and serves on the board of Constellation Brands, Inc.

“Pete sees a lot of analogous issues and challenges

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that may provide some different creative solutions that could be brought back here as best practice. On the other hand, I'm sure Constellation is enjoying the benefit of ideas and practices he exports from the ConAgra experience," Rodkin says.

Constellation's chairman and board have focused on improvements in governance to raise its performance and standards from a family-owned-and-operated company to those consistent with a large public company. Perez has thus been able to leverage his experience as a member of the HR committee. He is now the committee's chair.

Perez says that during his tenure on the board, there has been increased focus on HR committee and executive compensation from a governance standpoint in the wake of greater SEC regulation, government involvement, and shareholder activism. All of these increase the accountability of boards and HR committees.

Audit and financial committees have evolved as more regulations have been put in place, and now compensation committees are evolving into "HR committees."

"There's a lot of discussion and concern from a public and government perspective around the effective regulation of executive compensation, but in that evolution there's also going to be a need for strong judgment and leadership on the part of boards," Perez notes. This is similar to the way audit and financial committees have evolved as more regulations have been put in place. Now the pressure is on HR committees. "Compensation philosophy is evolving pretty quickly and will continue to do so," says Perez.

While Constellation's HR committee is grappling with pay issues, Perez finds it is also evolving to handle broader human capital issues as well. These include talent management, leadership development, and succession planning. "The best-in-class companies really look at their talent more holistically." This focus and effort translates into a true competitive advantage for those companies who do it well. HR committees are recognizing this, and expanding

efforts in these areas beyond the traditional compensation committee model.

Perez finds that his work with Constellation's board (and most specifically its HR committee) has had a major impact on his work at ConAgra. "I look at it with a completely different perspective now . . . and more clearly understand a CHRO's accountability to the board and the HR committee." As a director, Perez is able to participate as a strategic business partner, a perspective he can put into practice at ConAgra as well.

□ *The value of an outside perspective.* When boards add HR talent to their ranks, it is usually from outside, rather than inside, the company. The CEOs we interviewed said it is not because their own heads of HR were not up to the task, quite to the contrary. Rather, it is because of the important relationships the head of HR has with the CEO and the board. If there is a human capital problem within the company, directors often want to go to the HR head directly without any real, or perceived, conflict of interest.

"Having someone from outside the company as a director with an HR background to work with the inside HR director and the CEO . . . is extremely helpful and healthy," says Timothy Moen, executive vice president and head of human resources at Northern Trust Corporation. Moen is one of two executives with an HR background on the board of BAI where he has served since 2001.

"I think a board is all about gaining as many perspectives as possible," Moen says. Diversity is key to having the different perspectives from which to learn and to analyze. "That analysis helps guide you in making the ultimate decisions for the company. Getting the human capital element right is critical to the long-term success of an organization."

While Moen would not describe it as an overwhelming trend right now, he does see more and more boards considering HR professionals for their ranks. Even before TARP and Sarbanes-Oxley, executive pay was a hot button area. Compensation is really about motivating the right behavior, Moen says. "What things are you measuring to make sure that you're driving the company in the right direction

A Boardroom HR Trend

Human Resource Executives On US Public Corporations

Company	Executive	Title
American Express Company	L. Kevin Cox	Executive VP–HR
Broadridge Financial Solutions, Inc.	Richard C. Berke	Vice President–HR
Campbell Soup Company	Nancy A. Reardon	Senior VP/CHRO
The Clorox Company	Jacqueline P. Kane	Senior VP–HR
Chevron Corporation	Joe W. Laymon	Corporate VP–HR
ConAgra Foods, Inc.	Peter Michael Perez	Executive VP–HR
Corning Incorporated	E. Marie McKee	Senior VP–HR
Eaton Corporation	Susan J. Cook	Executive VP/CHRO
Fastenal Company	Reyne K. Wisecup	Executive VP–HR
General Mills, Inc.	Michael A. Peel	Executive VP–HR
Johnson Controls, Inc.	Susan F. Davis	Executive VP–HR
Kimberly-Clark Corporation	Lizanne C. Gottung	Senior VP–HR
Kraft Foods Inc.	Karen J. May	Executive VP–HR
LeMaitre Vascular, Inc.	Cornelia Weldon LeMaitre	Vice President – HR
Level 3 Communications, Inc.	Michele Vion Patton	Group VP–HR
Merck & Co., Inc.	Dr. Mirian M. Graddick-Weir	Executive VP–HR
PacWest Bancorp	Michael L. Thompson	Executive VP–HR
Perot Systems Corporation	Darcy G. Anderson	VP/Chief People Officer
Pfizer Inc.	Mary S. McLeod	Senior VP–HR
Quicksilver Resources Inc.	Anne Darden Self	Vice President–HR
Staples, Inc.	Shira D. Goodman	Executive VP–HR
TFS Financial Corporation	Marianne Piterans	Director–HR
Willamette Valley Vineyards, Inc.	James L. Ellis	VP/Secretary/Director–HR
Xerox Corporation	Patricia M. Nazemetz	Vice President–HR
Yahoo! Inc.	Elizabeth Sartain	Executive VP–HR

Source: Boardex

strategically and, at the same time, rewarding people for doing what you want them to do?”

Can this be done within the constraints of a compensation committee? Much depends on the committee’s charter, which can be quite broad, says Jacqueline Kane, senior vice president of human resources at

Clorox. Kane is on the board of Comerica Incorporated, a Fortune 500 financial services company, and is a member of its governance, compensation, and nominating committee. “Even though it may still have the name of compensation committee . . . the charter is much broader. It includes succession planning,

human capital management,” Kane says.

“I really think that every director’s role has changed in corporate America,” she notes. In these tough economic times, corporations—and the country as a whole—are all seeking to get back on a growth trajectory. More and more, boards are looking to CHROs to help explore human capital solutions.

“I think there is an abundance of talent in the chief human resources officers, not only here in the U.S., but across the globe,” Kane observes. HR leaders are being invited onto boards based on their ability to see the business as a whole, not just through the lens of HR.

To have risen to the top ranks within their own companies, the assumption is that these HR leaders can think strategically, says Lizanne Gottung, senior vice president of human resources at Kimberly-Clark. Gottung has spent half her career in HR, the other half in operations or manufacturing management. She joined the board of Louisiana-Pacific in 2007 and is a member of both its compensation/management development committee and environmental quality and regulatory affairs committee.

“Because I have a heritage in operations, the board figured that I understand what they do,” Gottung says. She credits the Louisiana-Pacific directors and management team with having a terrific orientation and on-boarding process. She says she did not feel she had to prove herself simply because she came from an HR background.

“I think that is a perception that is no longer reality. When you look at issues around compensation and benefits, and when you look at the cost, very often the human capital is something that is both an asset and a cost to the company. If your HR people don’t understand that, it’s a real problem. So I think that is a perception that should rapidly change.”

From her role at Kimberly-Clark, Gottung knows how the boardroom functions. “But sitting on the other side of the table . . . has given me a much broader view of how to look at my job day to day. It’s not just around compensation. It’s around how the company is run, how the company is structured. What I am taking every day from those people is another way to look at things, a different point of view.”

“One of the things that I’m trying to do is help the board effectively connect our business strategy with our human capital strategy, to link our strategic business goals with our organizational capabilities.”

□ *The CHRO as coach and facilitator.* Jim Welch is vice chairman of Brown-Forman Corporation where he is responsible for strategic planning, human resources, diversity, and the company’s corporate affairs. Welch is also on Brown-Forman’s board, but because he is a member of management, he does not officially sit on any of the committees, nor does he have a vote. However, he actively participates in the governance and nominating committee, and in the compensation committee, the latter of which he had often attended as the company’s senior HR executive even before he was on the board.

“One of the things that I’m trying to do is help the board effectively connect our business strategy with our human capital strategy, to basically link our strategic business goals with our organizational capabilities.” Welch also tries to voice the perspective of the company’s many interest groups. “Obviously, the board’s first duty is to represent all of the shareholders and I take that responsibility very seriously. But I also have other stakeholders in mind when I’m at the board table. When appropriate, I will share the perspectives of our employees, our trade and business partners, regulators, and sometimes the perspectives of the communities where we have sizable operations.”

Like many HR leaders, Welch is a skilled facilitator, and is mindful of the need to bring together disparate views and get everyone aligned. Unlike a good executive team, which constantly works together, boards may only meet, on average, six times per year. They have to work harder to be effective as a team, he says.

Team dynamics has traditionally been a strength of private equity firms and their portfolio companies. Peter M. Fasolo, former chief talent officer at Johnson & Johnson, is now with Kohlberg Kravis Roberts & Co. in New York. He finds an inherent alignment exists in private equity between inves-

tors, the boards, and management because all are heavily invested. As Chief Talent Officer at KKR, Fasolo works with many CEOs and boards of the firms' portfolio companies. He describes his role as having three major components:

- To work with the boards and management to ensure top leadership is in place.
- Succession planning and ensuring the right bench strength under the critical roles in the company.
- Aligning teams through management equity plans so that the manager-as-owner concept is in keeping with the company's strategy.

"When you don't have a top team that's optimal, you get misalignment, and misalignments often create missed opportunities in the marketplace," Fasolo says. Such misalignments sap energy that is not directed toward mission-critical work, and can slow down execution. "I think that a talented chief HR officer who's gifted at selecting people and developing talent can help get to the heart of those issues," he says. Too often, boards and directors may see the structural symptoms of a problem, but not their root causes.

"Companies are littered with great strategies that don't get executed and the reason they don't get executed is because you don't have alignment. I think gifted HR officers can help get alignment."

Fasolo believes that boards should look periodically at the health of the enterprise. By this he means the actual decisions made around management and leadership issues in the past year or two. Who has been hired into the company? What is the relationship between pay and talent or pay and turnover? What is the promotion rate of critical people?

"Rather than looking at intentions or philosophy or process, look at actual decisions that management has made around their talent," he advises. CHROs, in general, have the most seasoned skills in this area. Just as one would expect marketing chiefs or CFOs to speak with authority in their functional areas, Fasolo says, when a CHRO speaks up at a board meeting, he or she "should be absolutely placed on that same level."

Just as boards have expanded to add CFOs and CIOs to their ranks, it is time for HR to take its seat at the table.

We fully anticipate helping more clients add HR talent to their boards. If the client's goal is to have a board that more strongly reflects how the company itself is managed, then all the core functions need to be represented. Just as boards have expanded their breadth in recent years to add CFOs and CIOs to their ranks, now is the time for HR to take its rightful seat at the table.

The benefits are many. Not only do CHROs bring instant credibility to such important human capital issues as executive pay, succession planning and bench strength, and diversity, they also can view the business as a whole, and see how human capital solutions can come into the mix.

In time, those HR issues currently discussed within the confines of a compensation committee, may split into separate HR committees altogether to better focus on the entire spectrum of human capital issues companies face. CHROs who are part of these solutions in the boardroom, will also bring a new set of experiences (and contacts) back to their home companies.

It has also been our experience that the expertise CHROs have in team building and management development can help bring cohesion to the board and enable individual members to contribute to their fullest potential. Similarly, CHROs have a wealth of experience to share with the company's own head of HR, who can benefit enormously from having an expert outside perspective.

We have seen the evolution of HR leaders from administrative functionaries to strategic business partners reporting directly to the CEO. As more and more CHROs join boards of directors, they will gain exposure to the highest levels of decision making—perspectives they will bring back to their own companies and, in turn, raise the profile of Human Resources even higher. ■