

Growing HR influence in the boardroom

by Lynne Nixon and Anna Penfold

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It's become rare in recent years for heads of human resources to gain a seat on the main board for a myriad of reasons. But talent issues aren't receding in importance. According to a panel of FTSE100 board members leading a discussion with HR directors, HR leaders are finding other ways to interface with the board and influence the conversation around business and talent issues.

No HR director sits on the main board of their FTSE100 company today and in some cases the senior HR leader does not even have a seat on the executive board. This has not always been the case; Cadbury and Cable & Wireless are examples of FTSE100 companies that have had HR directors on their main boards in the past.

That is not necessarily a sign of the declining influence of HR at the top. Shifts toward smaller, more independent boards in the UK have simply diminished the chances of HR directors gaining a seat at the boardroom table. In 1999, there were 1,255 board directorships on FTSE100 companies; by 2010 that number had fallen to 1,076. Lord Davies's report on Women on Boards, published in February 2011, found that FTSE100 boards ranged between six and eighteen members, while FTSE250 boards tended to be smaller still.

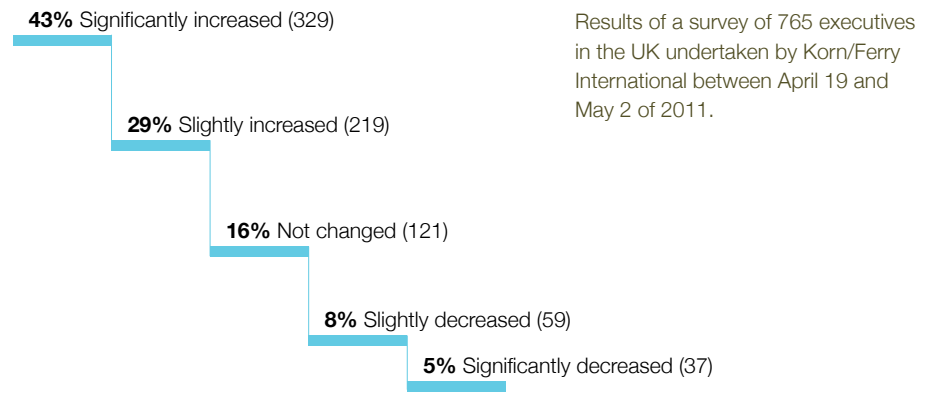
What's more, the Higgs Report on corporate governance (published in 2003) recommended that at least half the board (excluding the chairman) should be non-executives. That has, in effect, limited the number of executive board directors to four or five, including the CEO. With the CFO nearly guaranteed a spot because of finance's historic influence in the UK, and the trend toward appointing operational leaders who might ascend to CEO, other functions – such as sales/marketing, IT, legal and HR – have few spaces left to compete for.

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There is some evidence, nevertheless, that HR directors are being taken more seriously at board level, including more regular invitations to attend board meetings and an increase in ‘ownership’ of the non-executive director (NED) hiring process. With governance, leadership succession, and the “war for talent” scarcely ever out

of the public eye these days, HR issues are demanding more board-level attention. A recent poll by Korn/Ferry International of more than 700 senior executives in the UK found that over 40 percent thought that the influence of HR on board decisions during the past five years had “significantly increased” (see Figure 1). Only 13 percent of them said they thought that it had decreased.

Figure 1
In the last five years, the level of influence the HR function has had on board decisions has:



The Panel

- > **Eric Daniels**
Former CEO, Lloyds Banking Group,
Non-Executive Director, BT Group
- > **Penny Hughes**
Non-Executive Director, RBS, Morrison's,
Cable & Wireless, Home Retail Group
- > **David Tyler**
Chairman, Sainsbury & Logica,
Non-Executive Director, Burberry & Experian

And yet HR leaders know that they have still more to contribute. A recent panel held at Korn/Ferry Whitehead Mann’s London office brought together a number of Britain’s top HR professionals to examine what group HR directors might do to increase their involvement at main board level. Chatham House rules applied.

The forum was headed by a distinguished panel of three directors from the boards of FTSE100 companies. The discussion was chaired by Mary Spillane, a guest lecturer at various business schools and a leading facilitator. With contributions from all the delegates, they set out to answer the question: What can HR executives do to further their influence on boardroom decisions over the next five years?

Strategic contribution, not just strategic thinking

The panel had little doubt that the HR role, whilst 'evolving' in stature, still has room to grow in most companies. Examples were given of HR directors who have exerted a significant impact on major strategic decisions. At Burberry, for instance, which describes itself as "an iconic British brand founded in 1856", the HR team was highly influential in changing the culture from a "traditional British" atmosphere to one that is very cosmopolitan, with successful operations around the world. But there were examples, too, of organisations where HR is still not viewed as a serious contributor to strategy.

There was common agreement that HR executives need to scrutinise and discuss broader strategic issues even more, and apply HR expertise to the wider

needs of the business. One panellist said that HR executives in general work in "a terribly rarefied bandwidth". Another said that the HR director is still seen as being too involved with day-to-day issues – union negotiations, recruitment, training and the like. They appear to be advisors rather than decision-takers. They don't, as one panellist put it, "bang the table and say, 'Back me or sack me'."

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HR directors also need to proactively generate more conversations with main board directors. Heads of operations, by contrast, get regular contact with different board members as a matter of course; the heads of HR do not. One conference delegate said she was learning how the interaction with NEDs differs from senior executives. "Navigating that landscape," she said, "is one of the most challenging tasks for an HR director." On account of the nature of their role, NEDs often provide a more holistic commercial perspective on an organisation. Their mindset is influenced by a number of factors, not least all governance requirements, and the approach taken by HR directors should reflect this.

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There was general agreement that HR directors would benefit from senior-level experience outside the function. Very few of the delegates had had roles outside HR, though this is not unique to the UK and varies between sectors. A survey of the heads of HR at large American companies found that more than 60 percent had spent 10 years or more working in HR.

To overcome this limitation, some companies – Microsoft and Unilever among them – have recruited HR directors from outside the HR discipline, while others are putting their high-fliers in HR positions at an early stage during their rise to the top.

One delegate with four years' experience as a general manager said that the thing he learnt "outside" was that, "You've got to hit the numbers". "Working in areas other than HR makes you more pragmatic ... less theoretical. Boards are more comfortable with people who 'get the numbers'. The perception is that HR is short on this, and always has been."

In recent years, HR information systems have arrived that aggregate data needed by HR leaders, not just to improve performance, but to prove how talent affects value. Such technological tools could be the golden key that gives HR credibility in the boardroom. As one K/F conference delegate put it: "It's just so much easier when the numbers are in front of you."

HR is also often perceived as a function dominated by women, though in reality just over 40 percent of the group HR directors in the FTSE100 today are female. Regardless, concerns about disparity in board gender representation have yet to exert much effect. There has been no evidence of an increase in HR directors being sought as NEDs to comply with the Lord Davies recommendation that 30 percent of main boards should be women.

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Positioning HR leaders for boards

The panellists encouraged HR directors to seek experience on outside boards as NEDs as well to gain experience with wider boardroom issues. This process can be greatly assisted by board members encouraging and sponsoring HR directors to look outside. One chairman wrote a letter of commendation for his HR director, supporting their search for an NED post elsewhere; this individual found a NED position in a FTSE listed company within 12 months.

Only a small number of delegates said that they already sat as NEDs. Currently only six group HR directors in the FTSE 100 hold recognised non-executive roles in listed organisations, so this was hardly a surprise. But a number of them described their broader experiences. One had been invited onto the board of a charity that she "felt passionate about", and there had gained experience "outside my personal comfort zone".

Another recommended the National Health Service as “a great learning place”. He had had several NED positions in the public sector. One panellist agreed that the public sector was a good place to look for your first NED position, as the private sector boards generally prefer to hire NEDs who have previous experience of working as part of a main board. Of particular value is a public sector appointment where the board consists of other experienced and high-profile NEDs from the private sector.

One delegate had been appointed to the board of a subsidiary of her multinational employer. Not only was the subsidiary in a different business, it was also in a different country. The HR director was valued, she thought, because she was “someone from HQ who created a conduit for communication between group and operations.” Meanwhile she gained broad international experience and increased her exposure to the demands of corporate governance, and positioned herself for future NED appointments.

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This gives encouragement to those aspiring to reach the boardroom, as well as a broader range of role models to learn from. Those ‘trailblazers’ include Bob Stack, Sally Bott, Clare Chapman and Angie Risley, followed more recently by Anne Minto, appointed to the Board of Shire, and Hugo Bague, appointed at Jones Lang LaSalle.

One of the panellists suggested that globalisation has put HR “in pole position”, now that it has moved beyond the stage of technology transfer, of setting up call centres in offshore locations, to a stage where the world itself has become the battleground in the “war for talent”. Boards are leaning on the CEO to find out what their organisations are doing about this internationalisation of the talent pool, and the CEO, of course, is leaning on the HR director for answers.

Indeed, growth into emerging markets has provided a major opportunity for group HR directors to play a strategic role in their organisation’s global

expansion. Effectively aligning workforce planning with the business strategy is a task of immense value, and such experience can be advantageous when HR directors are positioning themselves for a seat in the boardroom, particularly with organisations eager to grow in new markets.

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Conclusions

So what can HR leaders do to become an integral part of the board and have more influence on board decisions?

It helps if there is effort in both directions. For their part, boards need to engage HR directors in strategic debate. HR directors, on the other hand, should consider seven steps that can lead them closer to the boardroom.

- 1. Talk the talk; speak like a CEO.** Learn the language of CEOs and board members and drop the HR jargon.
- 2. Follow more closely the career path of a CEO.** Seek broader managerial experience, as well as international experience.
- 3. Grab any opportunity to get more involved in business planning.** This will develop strategic thinking both personally and in the HR function. As one panellist put it, “Take a view on strategy and on the future of the company.”
- 4. Demonstrate analytical and numerical skills** to eradicate any misconceptions about HR as ‘soft’. Boards are accustomed to discussions based on numbers. Capitalise on the growing stock of technology that can help measure the value of HR.
- 5. Build confidence through broadening knowledge,** particularly of the business issues affecting the organisation.
- 6. Join other boards as NEDs wherever possible.** Gain sponsorship from the CEO and chairman before heading down this route.
- 7. Use key issues** such as succession planning as a platform to engage more directly with members of the board and connect HR expertise to wider business issues. (Do not, however, underestimate the challenge of working with the chairman on CEO succession whilst simultaneously reporting to the CEO.) Diplomacy is essential to remain both a confidant to the CEO for everyday activities and partner to the board on succession. Missteps can undermine the relationship with the CEO, making him view the HR director less as a confidante and more as a double agent.

Participants

In addition to the panelists, Korn/Ferry's "Leading the Board" forum was attended by thirty two group HR directors, two senior HR leaders, one Chief Operating Officer and two former group HR directors who have transitioned to developing a non-executive portfolio. The following companies were represented:

Amec	Inchcape
AstraZeneca	Intermediate Capital Group
Avery Dennison	ITV
Balfour Beatty	Kingfisher
Barratt Developments	Man Group
British American Tobacco	Ministry of Justice
BBA Group	National Grid
Brit Insurance	Rexam
BSkyB	Segro
Cable & Wireless	Standard Bank
Channel Four	Syngenta
Close Brothers	The Aegis Group
COLT Telecom	The Royal Bank of Scotland
Computacenter	United Biscuits
Experian	W S Atkins Group
Guoman Hotels	William Hill
Holcim Group	Yell Group
IBM	



Lynne Nixon led Korn/Ferry’s “Leading the Board” forum in June 2011. Lynne was Head of the Human Resources Centre of Excellence in EMEA before relocating to help develop Korn/Ferry’s business in Sydney in July 2011.



Anna Penfold attended Korn/Ferry’s “Leading the Board” forum in June 2011. Anna is a Client Partner in the Human Resources Centre of Excellence based in London.



Ellie Filler attended Korn/Ferry’s “Leading the Board” forum in June 2011. Ellie is a Senior Client Partner in the Human Resources Centre of Excellence based in Zurich.



Hal Johnson attended Korn/Ferry’s “Leading the Board” forum in June 2011. Hal is Head of the Human Resources Centre of Excellence based in New York.

About The Korn/Ferry Institute

The Korn/Ferry Institute generates forward-thinking research and viewpoints that illuminate how talent advances business strategy. Since its founding in 2008, the institute has published scores of articles, studies and books that explore global best practices in organizational leadership and human capital development.

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Korn/Ferry International, with a presence throughout the Americas, Asia Pacific, Europe, the Middle East and Africa, is a premier global provider of talent management solutions. Based in Los Angeles, the firm delivers an array of solutions that help clients to attract, deploy, develop, and reward their talent.

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