

THE Chief Human Resources Officer

An Underutilized Resource
for Corporate Boards

UPDATED FOR 2017



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The Premise

Allegis Partners believes that Chief Human Resources Officers (CHROs) represent an untapped resource for corporate governance which could add significant effectiveness to many corporate Boards.

This view is based on more than 50 years of combined experience partnering with both public and private organizations in all aspects of Board development, as well as our deep knowledge and experience in all aspects of Human Resources including the role of the Chief Human Resources Officer. In our opinion, the strongest CHROs, both currently active and those recently retired, by virtue of their strategic view of inter-related issues across the enterprise and their deep knowledge and understanding of all aspects of talent would add substantially to the dialogue at the Board level. Outstanding CHROs understand all aspects of how companies work and interact. They are a key, guiding hand when major transformations are taking place involving all manner of change from significant acquisitions to layoffs. CHROs understand the implications of cultural change and how to keep the company on track to a desired outcome.

This said, superior Human Resources skills alone are not nearly enough to make for a strong Board candidate, and at the same time, not all companies'

challenges and priorities would indicate that a CHRO would be the best choice as the next Board member. In addition, there remains a perception among many CEOs and Boards that Human Resources, in general, is not as strong a function as other C-suite roles. There continues to be a lingering widespread view that the "standard" CHRO is simply not strong enough to be considered a strategic contributor, let alone a member of a Board of Directors.

With the above in mind, we noted the significant percentage of CHROs who held or have held Board seats are also Fellows of the National Academy of Human Resources (NAHR). We wondered what was it about these Fellows that got them identified as a candidate and appointed to Board roles. Why did the companies select them, and what made them effective Board members?

We were delighted to partner with the NAHR to see what we could learn from this very impressive group of Fellows. Our thanks to Dick Antoine, Jill Smart, and the Board of NAHR for their support in this effort.

We look forward to sharing what we learned.

- Robert J. Lambert

The original study on which this report is based was a collaborative effort between Robert Lambert of Allegis Partners, the National Academy of Human Resources and Jeff Hodge of Hodge Partners. Current updates and analysis were completed by Robert Lambert of Allegis Partners.

Our Approach

We met in person or by telephone with 26 Fellows of the National Academy of Human Resources (NAHR) who have Board experience along with 10 Fellows who are currently seeking Board roles. In addition to the NAHR Fellows, we spoke to 15 non-CHROs, including Board Chairs, Nomination and Governance Committee Chairs, and other independent directors who have interacted directly with the CHROs on their Boards.

In addition to the above, we have incorporated our personal observations gained by several decades of Board recruiting experience, CHRO recruiting experience and personal experience serving as a CHRO with four different organizations, both public and private.

The interviews were quite conversational in approach, which provided an interesting, and at times, provocative range and depth of answers. They were guided by questions aimed at answering the following:

- 1. When and why have Boards considered CHROs?*
- 2. What made CHRO candidates attractive and how were CHRO candidates identified?*
- 3. How do we build the business case for more CHRO Directors?*
- 4. How do we get the word out that many CHROs are ready and more than able to serve on Boards?*
- 5. How should more CHROs get ready for opportunities for Board roles?*

We view this as an ongoing study and look forward to adding to the discussion on a regular basis as more ideas are raised on this important topic.

This report incorporates updates for 2017

Initial Observations and Conclusions

1. WHEN AND WHY HAVE BOARDS CONSIDERED CHROs?

The dominant response to this question was that the companies who selected a CHRO for their Board were often going through significant transformation. A key implication, both stated and implied, was that the CHRO was well positioned to assess the risk implications of cultural change as well as to weigh in on the best approaches to effect lasting, positive cultural change. These transformations took many forms, but those most often noted were as follows:

- *Spin-offs from larger entities where the Board recognized the strategic importance of talent and the ability to align strategy, people and execution. Often these spin-offs had significant labor or other talent specific issues.*
- *Companies facing significant economic, legal or other challenges in need of significant organizational change.*
- *An acquisition of significant size resulting in critical organizational change challenges, including cultural integration considerations.*
- *Companies emerging from bankruptcy that had not focused on “people issues” and were in need of major restructuring or where the bankruptcy judge/creditor committee wanted an HR executive on the Board.*
- *Companies evolving from private entities to public entities.*
- *Family/closely held companies requiring a Board member attuned to cultural implications.*

We view this as an ongoing study and look forward to adding to the discussion on a regular basis as more ideas are raised on this important topic.

We also noted that those companies that had a sophisticated approach to identifying the types of Board members that would be added in the future — including the development of defined skill sets required for future governance matters and an annual review of Board composition — were more likely to consider a CHRO. This was particularly evident where the following were significant considerations for the Board:

- *Succession planning and talent management*
- *Executive compensation*
- *Complex labor relations challenges*
- *Diversity concerns and challenges*

Companies that develop and market Human Resource-oriented products or services were very interested in having a CHRO as a Board member or Advisory Board member. Both product design input and “door opening” were referenced as key attributes for the CHRO Director.

Finally, those companies where the Board or CEO had prior experience with having a CHRO on the Board were very inclined to add new CHROs when current CHRO Board members retired or to add CHROs to new Boards they sat on.

2. WHAT MADE CHRO CANDIDATES ATTRACTIVE AND HOW WERE CHRO CANDIDATES IDENTIFIED?

A recurring theme in the discussions we had needs to be highlighted early and often, as it has significant implications for both Boards considering CHROs and CHROs who seek Board roles. Specifically, CHROs for the most part do not get on Boards based on their HR skills. Over and over we heard that it is the combination of executive HR expertise and “exceptional business mindedness” that made someone a strong candidate. Strategic Human Resources capabilities, including executive compensation, are expected skills in any CHRO. CHRO Board members must have significant breadth beyond HR to be effective in Board roles.

Given that Boards have often considered CHROs when there is significant transformation required at their companies, it is not surprising that the survey participants referenced large-scale organizational change and transformation experience as having been very important in their candidate selections. Some examples included experience with:

- *Building new management teams, including significant succession management experience*
- *Moving to multi-channel/digital distribution or other challenging business structure changes*
- *Expansion into new international markets and regions*
- *Changing market forces in regulated industries*
- *Implementing significant technology change*
- *Integrating major acquisitions*
- *Managing complex labor issues*
- *Demanding executive compensation matters, including implementing major overhauls to executive compensation plans or integrating compensation plans after acquisitions*

Board members often commented that the CHRO candidate was not perceived as a “typical” CHRO. They had more business knowledge than the Boards expected. Interviewees offered specific examples of CHRO Directors taking part in IPO roadshows or being considered as candidates for Board chair. Ultimately, they are people who are candid, curious and discerning. They do not hold back and they are willing to “call it as they see it.”

The CHROs appointed to Boards were often given strong consideration because they had significant, related, non-HR experience. Some had sales/marketing experience, others had government relations experience and a few had P&L responsibility, which was viewed as highly positive.

Approximately 75% of the current CHROs on Boards obtained their seats through network connections. Executive search firms identified the remaining 25%, the majority of those candidates being diverse.

“Operations, a line-role, international/global, M&A—you need this experience. As more and more non-CHRO’s get up to speed on talent—look a lot of these guys took a page from Welch’s book and have been leading talent reviews in their own companies for years—why do they need a CHRO on the board? You better bring something else.”

Some examples of how CHROs made their Board connections:

- *"My general management job got me additional visibility."*
- *"I was recommended by a former CFO colleague."*
- *"I was recommended by an academic colleague."*
- *"I was recommended by a current Board member of my company."*
- *"I was coaching the CEO."*
- *"I began as an Advisory Board member."*
- *"I got noticed in my role as a Business School Advisory Board member."*
- *"I met someone at a women's executive conference."*
- *"I knew the family that controlled the company."*
- *"In the course of a Board interview, I met a Board member who steered me to one of his other Boards."*
- *"I was speaking at a conference on Total Rewards and got noticed by a company with an HR product."*
- *"I was seen in action in a significant nonprofit or industry association Board role."*
- *"I was recommended by a CHRO who did not have capacity."*
- *"I was recommended by a colleague (non-CHRO) who did not have the capacity."*

“ HR leaders who served on public boards in the 1980's and 90's, I mean substantial public companies, were the pioneers. They probably got there by first, being exceptional business leaders but were brought into the board arena by a CEO who believed in them—this was pure networking at its best—and it worked. Other board members understood the need and someone championed an HR leader candidate. ”

In every case, Boards that selected CHROs mentioned that they were extremely pleased with the contributions that the new Directors had made. They also commented that the contribution went well beyond expectations—and well beyond Human Resources matters.

“ I was very skeptical when (CHRO board candidate's name) was brought up as a candidate. I really did not get it – why we were looking at a CHRO? I thought the selection committee was taking a real risk. Four years later (CHRO Board Member) is by far and away to most effective and respected member of our board. ”

3. HOW DO WE BUILD THE BUSINESS CASE FOR MORE CHRO DIRECTORS?

The business case for more CHROs directors is strong and compelling.

You can look at almost any organization and find there are generally only three people who have the “helicopter” strategic view of the entire corporation: the Chief Executive Officer, the Chief Financial Officer, and the Chief Human Resources Officer. In the same way the CFO allocates and manages financial capital, the CHRO manages human capital across the whole portfolio of business segments and functions. Accordingly, they are well positioned to understand how the levers work and the impact of decisions—a skill which is very relevant to a Board role. While this might seem obvious to a CHRO, this big picture orientation was cited by almost all non-CHRO survey participants.

The CHRO has experience providing service across the full spectrum of the management team and can take a holistic view. The best CHROs operate as stewards of the business, proceeding to collaborative solutions with credibility and discretion. They are exceptional listeners and experts at working horizontally across the enterprise.

CHROs rarely have direct line authority over the business so they have learned to lead and manage through influence—seeing things from the other person’s perspective.

CHROs understand the delicate balance between governing and managing. They provide a balanced view on business issues and talent and have the ability to meet people where they are, deliver advice or a difficult message in a way that will be heard, and give people the incentive and opportunity to “own it” and drive it forward.

One of the individuals interviewed suggested that:

“HR equips a person to play the Board role because throughout a corporate career you are typically not in a line management role. You do not necessarily have direct authority, so you have

to earn your influence and pull people together and convince them. Those are the kind of skills that you need to have when you pull a diverse Board together. You help them with a direction, influence management and get on with it.”

From private equity portfolio companies to those on the *Fortune 500*, investors and CEOs consistently point to talent quality as the key driver of their success or, conversely, the biggest obstacle to their growth. This is particularly evident in organizations facing major change and was cited by many Board members as a key consideration in the experience/backgrounds they sought in bringing on new Directors.

The executive with the most direct responsibility for talent and talent strategy, along with a front row seat when change is significant, is the CHRO.

In our conversations with Board members, CHRO Board members were singled out for many contributions, including the following:

- *“The CHRO Board member, having participated in several CEO searches and transitions in his career, was extremely effective in helping the Board lead a critical CEO search.”*
- *“It is very hard to talk about CEO succession when it is not front and center. CHROs are very good at getting the dialogue on the table without it being threatening.”*
- *“A CHRO is uniquely positioned to evaluate the CEO beyond the mechanics of the numbers. They can add significant range to the overall evaluation. For example, a CHRO will weigh in as to whether the CEO is converting talent strategy into action and comment on the overall team effectiveness level.”*

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- *“The CHRO is a strong asset when it comes to succession planning for the C-suite and their teams. In several cases, the CHRO Board member provides leadership for Board retreats focused on talent.”*

“ Boards are finally stepping up in the talent area because they now understand that not having the right people in the right roles (and the bench to back them up) is as big of an organization risk factor as anything else. The only question is why has this taken so long to figure out? ”

In summary, a CHRO Board member is uniquely positioned to contribute to the discussion regarding key talent risks and opportunities. Given the talent imperative across all industries, it is not surprising that, as one Board Chair put it, “Having a CHRO on the Board is a strategic advantage for the company.”

4. HOW DO WE GET THE WORD OUT THAT MANY CHROs ARE READY AND MORE THAN ABLE TO SERVE ON BOARDS?

In order to increase the numbers (and quality) of CHROs on Boards, CEOs and Boards need to better understand the value CHROs bring. This will be no small task and we are up against deeply held beliefs and decades of perception. The real challenge is not just about getting CHROs on Boards but getting the best CHROs on the right Boards.

Painful but true, many CEOs and Boards today still have not experienced truly great HR. We see this every day in our CHRO search practice. There were broad and quite divergent perspectives on what constitutes great HR leadership among the CEOs interviewed for this survey.

“ First of all, HR needs to get this chip off their shoulder. Why should there be more CHRO’s on boards? Why not (more) CMO’s or CIO’s? Maybe we have enough CHRO’s on boards... Human Resources is facing very serious challenges today. Is the Academy getting involved or are we too concerned with (just) getting on a board? I think a lot of my colleagues really care about the future of the function and building a legacy for HR - that is where we should be focused. ”

CEOs and Boards need to better understand the value CHROs bring. This will be no small task.

5. HOW CAN MORE CHROs GET READY FOR BOARD ROLES?

The key to preparing for a Board role is for the CHRO candidate to show that they are deeply involved in and fully understand all aspects of the business, and when the time comes, be articulate about the future challenges the company faces. When they are interviewed by a potential Board, the CHRO candidate will need to demonstrate their business acumen through an understanding of the company's business model and through the questions they bring to the interview panel.

The most frequently cited skill set CHROs lack is financial acumen. Fundamentally, the CHRO Board member will need to understand the company's financials, how the business makes money, and the key business and financial drivers. In a Board role, you need to understand the deliberations of all business and financial discussions, including the Audit Committee whether a member or not. The CHRO Board member will be heavily involved in weighing in and voting on acquisitions and divestitures and other major financial decisions, and there will be myriad banking and legal considerations with financial ramifications. The more financial skills that a candidate can develop, the better.

Experienced CHROs on Boards also commented that a key for them was their heavy involvement with Boards at their own companies. Some suggestions from the group for preparing to be on a Board:

- *"Work closely with the Board on strategic talent management as well as succession and workforce planning."*
- *"Get involved in Board recruiting."*
- *"Stay involved with the Board in CEO recruiting."*
- *"Lead executive compensation with the Board Compensation Committee (self-assess—if not a strong suit, make it one)."*
- *"Be a sounding board for the CEO's presentations to the Board."*
- *"Contribute to the full Board and Board committees on topics and perspectives beyond those related to HR functions."*

“ Unfortunately, we are promoting some ...HR leaders too early and too quickly in their careers. ...We're not doing anyone any favors when we do this because if they are not ready, then their lack of experience will eventually catch up and in the long run, this will drag down the entire function. ”

As noted earlier, many successful CHRO Board candidates stood out from the crowd by having had significant non-HR responsibilities. If possible, add to your resume a non-HR role. Examples and suggestions included the following:

- *Several had run the pension investment portfolio. One CHRO got extra support by having an over-funded plan.*
- *A future CEO of a company (heir apparent) was asked to move from an operating role to be CHRO (for the last seven years).*
- *Several had marketing, branding, or corporate affairs experience.*

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- *Six CHRO Board members had P&L experience, including a \$3B division.*
- *One CHRO did a rotation through finance.*
- *One CHRO ran manufacturing.*
- *Several pointed to volunteering to lead global initiatives as having been extremely helpful.*
- *Frequent comments suggested, "Apply for big challenges in your career."*
- *One CHRO offered up that in hindsight he would have stepped up to lead more acquisitions.*

Other steps that CHRO Board candidates can take include the following:

- *Get Board experience at your own company by appointment to a joint venture Board.*
- *Make sure you are working for a CEO who values HR.*
- *Network with the search firms, make sure they are aware of your interest.*
- *Get exposure to private equity firms.*
- *Cultivate your relationships within your industry; subject to potential conflicts, it is easier to get appointed to environments where you have relevant experience.*
- *Prepare your resume throughout your career (it will be difficult to remember all your roles and dates years later) and make sure there are no surprises on social media.*
- *Join and lead nonprofit Boards.*

Finally, one very experienced, multi-Boarded CHRO said, "Don't wait until you retire to get ready!"

Contributors

Allegis Partners

Allegis Partners is the global executive search firm that delivers a boutique, high-touch approach to talent management. Focused on identifying diverse, top talent for human resources, board, CEO and other executive and senior management roles across industries, Allegis Partners brings deep expertise and insight into each relationship. Each search is customized within the global market to pair candidates with deep skills and knowledge to the unique needs of clients. The firm is backed by the extensive resources of the Allegis Group, the global leader in talent solutions. To learn more about Allegis Partners, visit www.allegis-partners.com.

National Academy of Human Resources

The National Academy of Human Resources (NAHR), founded in 1992, is an organization where individuals and institutions of distinction in Human Resources are recognized for professional achievement and where, through a collaborative effort, the work of the profession is advanced.

Academy Fellows work to enhance the Human Resources profession in several ways including honoring, through election as "Fellow of the NAHR," those individuals who have distinguished themselves through their leadership in the broad field of Human Resources. Fellows come from many life experiences and all aspects of contemporary and intellectual professional thought and activity in Human Resources. Election as a Fellow of the NAHR is by vote of the membership and is the highest honor granted in the Human Resources profession.

Since the Academy's founding, 164 individuals have been elected Fellows of the NAHR. Occasionally, NAHR members elect "Distinguished Fellows" and "Honored Organizations," recognizing individuals and organizations for their special contributions to Human Resources.

Robert Lambert

Robert Lambert is a Managing Director with Allegis Partners, based in the Orange County - Los Angeles California, office. For more than 25 years, Bob has served a wide variety of organizations in their quest to build responsible and sustainable competitive advantage through the alignment of focused strategic thinking, bottom-line execution and exceptional executive talent.

Bob has a passion for engaging leaders in conversations that have genuine meaning and impact, both for their organizations and in their personal lives. He has worked with complex global organizations as well as smaller companies—public-traded, privately-held and PE backed—helping them to shape their futures and meet the challenges they are confronting. Clients consistently praise Bob’s contributions for enhancing their ability to effectively solve highly complex people strategy and organizational problems, as well as building stronger, sustainable organizational capabilities and effective leadership teams.

Bob brings to Allegis Partners a diverse and distinguished business career. He approaches his client engagements with a precise strategic focus and sense of urgency cultivated through years of working with both clients and companies engaged in complex turnarounds, M&A integration challenges and post-bankruptcy workouts.

Bob’s executive search experience is equally impressive having served clients as a managing partner with both Heidrick & Struggles and CTPartners.

In addition to his executive search experience, Bob has held executive-level positions in both Human Resource and C-level operational roles with PepsiCo, Stride Rite, Macy’s, REI and Patagonia.

Prior to entering business, Bob proudly served as an officer in the U.S. Navy, flying the carrier-based A6E “Intruder” aircraft in forward-deployed operations as well as research, flight test and development. He holds a Master of Arts in Finance from Webster University and a Bachelor of Science in Environmental Science and Geography from Arizona State University.

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