The HR Opportunity in the Boardroom: How to Become a Trusted Advisor to the Board

By Mark Nadler and David Nadler

The past few years have brought some remarkable changes to the role of U.S. corporate boards, resulting in an intriguing paradox for chief human resource officers (CHROs).

Over the past few decades, we've seen boards evolve through several distinct stages. Historically, most boards were ritualistic appendages, serving at the pleasure of an all-powerful CEO who periodically turned to the board for perfunctory ratification of legally mandated matters. In the early 1990s, spurred by failing corporate performance and pressured by dissatisfied shareholders, boards took on a more active role in fulfilling their legal responsibility, removing unsuccessful CEOs at an unprecedented pace.

Following the corporate scandals of the early 2000s and the ensuing wave of landmark legislative and regulatory requirements, newly independent boards began to step up and assume a more collaborative role with CEOs, seeking ways to level the playing field through more aggressive monitoring of management compliance with all the new regulations. But the "collaborative model" that was once viewed

by most observers—including ourselves—as the ultimate goal of corporate governance now looks more and more like a relatively short-lived transition to a new era in which boards of many companies are beginning to play a leadership role, forcefully asserting their predominance in many areas traditionally within management's purview.

In effect, what we're witnessing in this age of activist investors is the parallel emergence of the activist board. And that development holds enormous consequences for HR leaders who successfully position themselves to seize the opportunity. That's the good news for HR. The bad news, our experience and research suggest, is that most CHROs still have a long way to go.

CHROs Still Lacking Sufficient Influence in the Boardroom

As more boards immerse themselves in both operational details and rigorous risk oversight, HR should be showing up on the board's radar more often than ever before. And therein lies the paradox for CHROs: For years, senior HR executives have wished for a chance to play a much more influential role in the board room—and the rise of activist boards should make that a reality. Yet, our experience with the boards of dozens of companies, supported by a recent survey of directors we conducted in collaboration with the National Association of Corporate Directors (NACD), suggests that many, if not most, CHROs have failed to establish themselves as trusted, strategic advisors to the board, rather than just another manager of a corporate function.

The survey results were fairly startling (read the full survey results in the article "The Emerging Role of HR in the Boardroom" on p. 36). Of the directors who responded—more than 100 members of board compensation committees, about 40 percent of whom are committee chairs—only 31 percent said their CHRO has "a good or great deal of influence" on the board's decisions. Nearly half—46 percent—rated the CHRO's influence as neutral, and almost a quarter—23 percent—said their CHRO had "very little or no" influence on the board.

For those of us who believe the CHRO has an increasingly vital role to play in the board room, those are dismal numbers. Yet, perhaps the results shouldn't be surprising when you consider a 2010 survey by Cornell University which found that 50 percent of CHROs acknowledged that their role as liaison with the board was the part of their job they were least prepared for.

As we put the pieces of the puzzle together—our personal observations (both as outside consultants and from inside the senior management team) and research involving both directors and CHROs—the picture that emerges is one of both missed opportunities and untapped value. Far too often, CHROs have failed to meet the rising expectations of their boards in delivering on all but the most transactional HR matters. At the same time, boards have been slow to expand their view of the important ways in which HR could help them do their job better—most specifically, in the quickly emerging area of risk oversight. That's a generalized view of the situation. But in real life, the drama plays out differently in each board room, shaped in large part by the unique capabilities of each CHRO.

Over the years, in our various internal and external roles, we've watched the interaction between countless CHROs and boards, and we've seen the difference between CHROs who become trusted senior advisors to their own boards and those who fail. Our goal here is to share our thoughts on the keys to building successful relationships with boards, based largely upon our own experience, but drawing as well upon our recent director survey.

10 Keys to Success

1. Be a Talent Strategist, Not an HR Administrator

Boards generally pay close attention to CHROs who think, talk, and act strategically. They have little time—literally or figuratively—for the minutiae of HR operations, or of anything else, for that matter. The director's job is to sift through a maze of numbers and facts, pick out the few really important dots, and then connect them to create a meaningful picture of the organization's current condition, its risks, and its opportunities. Directors need all the help they can get, so they are particularly impressed by senior managers who consistently present information and explain its implications in a coherent strategic context.

For the CHRO, that starts with developing a comprehensive talent strategy for the organization, and then helping the board to understand specific HR initiatives and decisions in that strategic context. That might seem obvious, but we see far too many CHROs who adopt a transactional approach to their interaction with the board, providing data or requesting action in a strategic vacuum, with little or no attention to how these individual pieces fit into the overall HR picture.

Our personal observations were borne out by the directors' survey. Just under half—only 49 percent of respondents—said their CHRO provided either "great" or "very great" value in terms of an overall talent strategy. That was significantly less than for areas such as "executive compensation" and "employee compensation and benefits."

Perhaps even more important, from the board's perspective, is the CHRO's ability to make a direct connection between the talent strategy and the organization's overall business strategy. Just about every major survey over the past decade has rated corporate strategy as the board's top concern. The most effective CHROs constantly ensure that talent considerations are an important part of the board's strategic discussions. Does management have sufficient bandwidth to properly oversee a new acquisition? Are there enough people with the necessary backgrounds and experience to manage growth in an unfamiliar geography? Is the organization's culture conducive to attracting and retaining the creative talent required for highly innovative initiatives?

Those questions might sound obvious. Yet, time and again, the elegance of a business case or the attractiveness of a new market will shove aside basic considerations such as, "We don't have anybody who knows how to do that, and there's no reason they would want to come here to do it." When boards look at strategy, the best CHROs make sure the right questions are being asked.

2. Make Talent an Integral Component of the Risk Equation

The biggest buzz word in corporate governance today is "risk." As the list of potentially calamitous risks grows—cyber risk, climate change, economic collapse, game-changing technology, civil unrest, and so forth—shareholders and regulators are pressuring boards to step up their risk oversight. In some cases, regulators are demanding that boards get so deeply involved in the minutiae of risk management that directors are wondering how they're supposed to come up with either the time or technical expertise to perform a function that is more appropriately a management responsibility.

Be that as it may, to help directors do a better job of risk oversight, CHROs should help the board think more expansively about the role HR plays in risk—both organizational and talent risk. Specifically, how will talent and organizational capabilities affect the company's ability to prevent or mitigate likely threats or avoid missing out on major opportunities? Moreover, what risks are associated with the possible loss of key talent—in terms of top executives, people with rare technical expertise, or employees with precious customer relationships? The most effective CHROs are constantly thinking ahead and engaging the board in the right conversations.

Yet, clearly, it's not happening often enough. Not only did risk management rank last in terms of the areas where directors in our survey thought the CHRO contributed value—only 12 percent rated it "good" or "great"—it also came in dead last in terms of where boards wanted to have more interaction with their CHRO. The conclusion is unavoidable: Far too many directors simply don't see HR as a crucial component in the risk equation, which suggests that CHROs—and their CEOs—must do a much better job of educating the board.

We recall a board meeting of a regional bank we worked with where the CHRO came in to give a presentation on a new employee engagement program involving contests, t-shirts, coffee mugs, and other small incentives. She went through her deck, answered a few perfunctory questions, and left. But over the course of that six-hour meeting, talent-related issues kept coming up in the course of very serious discussions—the availability of management talent to adequately staff a proposed expansion of branch banks, the continued loan portfolio problems that could be traced directly to inept or novice loan officers. The board gave no indication of thinking about talent as a recurring theme in their disjointed risk discussions, or of assuming the CHRO should be part of those conversations.

Think about another risk which has historically received little attention at the board table: culture. It's a topic that generally gets short shrift in board rooms. But in the eyes of regulators, there is solid consensus that the root of so many of the recent abuses at financial institutions, ranging from unethical mortgage practices to excessively risky investments to money laundering, was the corporate culture at offending institutions. In fact, regulators have been forcing major companies to implement sweeping culture change projects. In light of the financial crisis, how many boards are becoming proactive about risk related to culture—and why isn't it happening at more companies? Without an influential CHRO, there's no guarantee that the right conversations will happen in the context of managing risk.

3. Be an Advocate, Not a Bureaucrat

An effective CHRO deals with the board as a respected advocate with a clear point of view rather than as a subservient functionary. It's not enough to give directors a pile of information and then passively await their decision; the CHRO must help them cut to the chase, lay out the options, and assess the relative pros and cons. When a senior executive comes before the board, directors are looking for judgment, insight and guidance—a point of view they can have confidence in.

This is an area where we see some CHROs excel. Similarly, the directors in our survey gave their CHROs acceptable ratings in this area; 57 percent rated their CHRO "good" or "great" at "acting as an informed advocated with a distinct and thoughtful point of view."

However, it's important to differentiate between being an advocate for talent practices that benefit the organization, versus acting as a de facto "shop steward" lobbying the board on behalf of the immediate interests of current employees. Confusing the two is a sure way to reinforce the lingering suspicion that most HR people don't understand "real business."

One of the most effective CHROs we know works at a mid-market, family-owned manufacturing company in the South. She's worked there ever since graduating from college, starting in HR, then working in other functions and line businesses before being brought back to HR as its leader. Despite her longevity and strong personal ties to people throughout the business, she has been a strong advocate of upgrading practices in recruitment, evaluation, and performance management as essential tools for modernizing the company. She makes it clear that without major changes, the paternalistic management style that made it such a pleasant place to work will ultimately lead it to fail. She is viewed by the board and her colleagues as someone who cares deeply about individuals – but who cares even more about the company's long-term viability.

4. When You're in the Board Room, Act Like You Belong There

No doubt about it: The board room can be an intimidating place. The physical surroundings, the aura of gravitas and ritual that enshrouds the proceedings, the distinguished pedigrees of the directors around the table—everything screams "power." (If it's any comfort, even board members sometimes admit to feeling intimidated in formal board meetings, which rarely provide either the physical setting or social dynamics conducive to doing real work.) The challenge for every executive who presents in the board room is to treat the board with the respect it deserves, rather than with abject deference, and to convey a tone and physical presence that positions you as a confident, trusted advisor.

Executives who infrequently attend board meetings understandably get anxious; some nervously await interrogation, while others go overboard trying to make a good impression. The fact is, if you act like a subordinate, that's how the board

will treat you. Unlike some CHROs, many CFOs—who over the years have grown comfortable with their regular place in the board room—seem to have figured out how to convey the right combination of respect and confidence. CHROs would do well to take a few pointers from their colleagues in finance.

Establishing a presence also involves the ability to "read the room." The action in some board rooms resembles a kabuki drama where it's important for presenters to carefully monitor each turn of a head or wave of a hand. Some CHROs, once in front of the board, feel compelled to slog through their entire formal presentation, ignoring all the unspoken signals that the board has learned all it needs to and is ready to move on. Others wait submissively to be asked direct questions to which they can give carefully rehearsed answers, oblivious to the silences that are actually invitations to take a more proactive role in the conversation. Neither approach positions you where you want to be.

5. Be Your Board's Guide to HR Innovation

Most boards are curious about what other companies are doing, and the CHRO can create real value by regularly exposing the board to HR "best practices" and innovations that the company might want to consider. Directors tend to be much more comfortable with HR practice rather than theory, so specific case studies from respected or particularly relevant companies tend to be well received.

HR professionals would do well to understand the extent to which their familiarity with innovations and emerging best practices across the profession influences the way they are perceived by their board. When we asked the directors in our survey to rank the practices that contributed to their CHRO's standing as a trusted advisor to the board, keeping the board informed of "innovations in the HR world" came in absolute last; only a third were rated highly in that area.

CHROs typically share timely information regarding developments affecting core HR activities, such as health care benefits and executive compensation, as well as the rapidly expanding realm of talent management practices and processes. What's quickly changing is the extent to which CHROs are being asked for information about how other boards are handling their own talent-related issues, ranging from CEO succession to director evaluation and on-boarding. For example, as more and more boards have taken on a leading role in CEO succession planning in the past few years, we've frequently seen boards who are getting seriously involved for the first time ask their CHRO to help provide information about "how other boards do it."

Because of our work in this field, we've been asked on several occasions either to facilitate the board workshops on best practices in both long-term and emergency succession planning, or to work in the background to help the CHRO lead the board through several work sessions. It's sometimes easy to forget that just a few short years ago, it was almost unheard of for a board to take the lead in succession planning, so it shouldn't be surprising that most are still trying to figure out how to get started. And they're looking to the CHRO for that help.

6. Resist the Urge to Bury the Board in Data

Too many CHROs fool themselves into thinking they can impress the board through the sheer tonnage of their reports. And they're not alone. One of the top complaints registered by directors is that they are increasingly overwhelmed by data; the transition to electronic board information packets has made it easier than ever for managers to indiscriminately drown directors in literally thousands of pages of briefing material prior to each meeting. Without fail, the board assessments we have conducted for clients in recent years have invariably cited exasperation with this indigestible flow of minimally edited data as a leading source of frustration among directors.

To be fair, CHROs aren't the only executives guilty of this.

But there's probably something about the determination to overcome the perception of HR as "soft and mushy" that leads some CHROs to confuse data with credibility.

We recently did some work with the board of a U.S.-based corporation that was essentially a holding company for several dozen similar but fairly autonomous businesses located all over the world. A top priority of the new CEO was to develop a comprehensive talent strategy: to assess the top talent, understand the bench strength, identify candidates for top jobs, and develop a plan for filling talent gaps across the portfolio. The board was particularly interested in two things: knowing that a sound process was in place to execute the overall strategy, and getting a sense of the internal talent pool for a handful of the most senior positions.

What the board received, instead, was a massive, elaborately packaged, three-volume report filled with hundreds of pages documenting the work histories of scores of managers, extending many levels down into the organization. For each manager, there was a very superficial assessment of career potential, without any explanation of what that assessment was based on or who had made it. What's more, there was nothing different in the reports for potential successors to the most senior executives, and no discussion of the C-suite talent bench. In other words, the CHRO had assigned people to spend months accumulating mountains of data that failed to answer the board's basic questions, leading to widespread frustration among the directors.

A basic rule when dealing with the board: The data dump isn't the report, it's the appendix.

7. Maintain Your Standing as an Integral Member of the Senior Management Team

You can't be influential with the board unless you're perceived as a major player within senior management. While it's not impossible for a CHRO to have that stature without being a direct report to the CEO, the instances where we've seen that are few and far between.

Apart from perceptions of status, there's a serious, substantive component to being part of the CEO's executive team. The participants in that team's meetings are exposed to the constant flow of issues and concerns that are critical to the organization's performance. The CHRO who regularly takes part in those meetings is constantly taking the pulse of the business, and has first-hand knowledge of the problems, priorities, and responses of the other members of top management—essential information for the CHRO when it comes to understanding the level of talent around the table and the health of the talent pipeline.

Those discussions within the executive team also provide a fuller understanding of corporate strategy. It's one thing to read strategy documents; it's something entirely different to see how the strategy gets played out in specific decisions about setting business priorities and allocating resources. Being a part of those discussions on a regular basis makes it infinitely easier for the CHRO to remain aligned with the rest of the senior team, and to keep the HR strategy aligned with the business strategy.

8. Get Close to the Board—but Not Too Close

The most effective CHROs develop strong working relationships with the chairs of key committees—in particular, the compensation committee and the nominating and governance committee—where much of HR's most substantive work with the board gets done. On most boards, committee chairs play powerful roles in terms of allocating time on committee agendas, guiding committee recommendations

to the full board, and influencing the agendas of the full board's regular and special meetings. They can be tremendous allies.

But there's also a risk in getting too close. CHROs, like other executives, must always remain vigilant against succumbing to "board seduction" and the heady attraction of becoming an influential confidant to a powerful board member. The danger comes when the CHRO unconsciously colludes with a board member who wants to dabble far deeper in operational details than he or she should. In recent years, growing numbers of board members—including active investors and directors who think they would do a better job as CEO than the incumbent—have shown little regard for the customary boundaries between the board and management when it comes to cultivating independent information sources in management. While building board relationships, CHRO's should also guard against becoming hapless pawns in board room politics.

9. Carefully Walk the Tightrope Between the CEO and the Board

Perhaps the ultimate dilemma for CHROs is that the pay-off for earning the board's respect for your judgment is that the board is likely to ask you for an independent view on a major issue that puts you directly at odds with your CEO.

Playing it safe is not an option; over time, a CHRO who the board believes is incapable of providing an independent viewpoint becomes a non-player. We saw this a few years ago at a Fortune 500 manufacturer; the board had finally lost patience with the CEO's continued efforts to delay the succession planning process, even though he was quickly approaching the age of 65 and 20 years in the job. So the board retained us to help them plan and implement a succession process. At the outset, we questioned why the CHRO was nowhere in sight. The answer was that the board had come to view him as the CEO's "flunky." He was a smart fellow, and an experienced HR professional, but because he had never been able to establish his independence, the board had excluded him from the succession process.

Compare that with the situation we encountered more recently at a major software company—involving similar circumstances but a much different set of characters. Again, there was a CEO who kept ignoring his board's admonition to formalize his succession planning process. The difference was the CHRO: Along with her long and close professional relationship with the CEO, she had also earned the trust and respect of the board. It quickly became clear that she was the only person who had any chance of persuading the CEO to drop his opposition without an ugly battle with the board.

The board chairman sat her down and told her, "It's time to stop standing on the sidelines; you have to get out on the field." He knew the conversation with the CEO would be difficult, more than a little uncomfortable, and beyond that, very personal for both of them. The CHRO had decided some time back that the CEO's departure would trigger her own retirement. So launching the succession process would establish the timeline for her own departure, as well. Nevertheless, she had the conversation; it was not fun, nor easy, but it was successful, and it produced the hoped-for results. It was a demonstration of tremendous courage by the CHRO, who understood that her ultimate loyalty was to the organization, rather than to any individual, including the CEO.

10. There's No Substitute for Superb Execution

It's great to think strategically, act like you belong in the room and spend time with the right directors. It's important to stay abreast of HR innovations, have a strong professional point of view and exhibit courage under fire. But none of that matters if your performance of the CHRO's basic responsibilities falls short.

That view was echoed by the respondents to our survey: Sixty-eight percent agreed that "consistently superb execution by the HR function" rated highly as a contributor to the CHRO's standing as a trusted advisor to the board.

Credibility is built by meeting commitments and delivering flawless execution on projects big and small. It's about maintaining absolute accuracy in the data, having a deep understanding of every number presented to the board, of consistently providing accurate estimates, and avoiding unpleasant surprises and unanticipated outcomes.

There are no shortcuts to gaining influence with the board. At the end of the day, it's all about earning their trust. And that has to start with consistently outstanding performance of your role as leader of the HR function. Those are the table stakes; being a great leader of the HR function won't guarantee you'll become a trusted advisor to the board, but falling short of excellence in the basic role will surely rule out any chance of a more influential one.

Mark B. Nadler is a principal and cofounder of Nadler Advisory Services, a firm that consults with boards of directors, CEOs, and executive teams on issues of leadership, governance, and team effectiveness. Mark's work in recent years has focused on board effectiveness, C-suite succession planning, and leadership transitions. He has consulted to the leaders of more than 30 companies across a broad range of industries, ranging from Fortune 500 corporations to family-owned firms and private equity portfolio companies. Mark can be reached at mnadler@nadleradvisory.com.

David A. Nadler, Ph.D., was a principal and cofounder of Nadler Advisory Services, which was formed after his retirement in late 2013 after seven years as vice chairman of Marsh & McLennan Companies, a global professional services firm. David passed away on Feb. 5 after a tenacious, valiant two-year battle with cancer. He was a trailblazer in the practice of organizational change. David became widely regarded as a respected thought leader and advisor to CEOs and corporate boards on governance, leadership, organization design, and senior teams. From 2009 through 2012, David was listed by the National Association of Corporate Directors as one of the 100 most influential people in the boardroom, and in 2013 was inducted into the NACD Directorship Corporate Governance Hall of Fame.