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Human Resources and The Board

Governance practices have been in the spotlight for the past couple of years, in an effort to improve both governance and executive behaviour, plus enhance public image. So, what do these evolving standards mean for the Board – VP HR relationship, and for the messaging by Human Resources to the Board?

Governance Fundamentals

The Board has two overarching duties for the enterprise they govern:

- Sustainability of the enterprise, and
- Relevancy of products, programs and services to the communities the enterprise serves

With this in mind, improved profitability and shareholder/stakeholder relationships, accurate public disclosure and transparency, plus reliability of reporting systems have been the most immediate fall-out of the Sarbanes-Oxley Act in the USA and the soon to be established guidelines of the Canadian Securities Commissions. This has affected many Canadian enterprises requiring new policies, reporting systems and changed work processes.

That said, the longer-term *REAL* Work of Governance, requires Board members to:

- Understand the network dynamics and environmental trends in which the enterprise operates
- Engage with the communities they serve in order to ensure continued relevancy
- Provide oversight to Management and ensure an Ethical framework is in place
- Manage Risk of the enterprise and its ability to deliver on its strategic and business plans
- Leverage Board member relationships to assist in Government relations, plus Friend- and Fund- raising activities

Within this context of governance, there are several areas the Human Resources department can proactively action in order to be of value to the Board.

HR – Risk Assessment

Given a good understanding of the environment in which the enterprise operates and the potential dynamics at play for the next 3-5 years, the Board needs to ensure they and Management have a good sense of how they will “position” themselves to create and provide value in the marketplace. This includes a clear understanding of the unique “knowledge recipes” and “innovation capacities” the enterprise intends to utilize.

Of course, knowledge and innovation are core HR concerns. The VP of HR and indeed the whole HR team should be clear about how their department is:

- (a) Facilitating knowledge sharing, growth and leverage across the enterprise, and
- (b) Nurturing innovation practices that will drive future value offerings and increase business/share value.

In the current environment of depressed profitability and volatile markets, many organizations have been “squeezing” discretionary expenses to improve the bottom line.

However, the “squeezing out” of knowledge-building and innovation-enhancing initiatives is folly for medium and long-term sustainability of the enterprise!

The second area of risk attention for the Board comes when Management presents the strategic plan and business plan to the Board each year. Both the Board and Management should have a good view as to the organization's competency and capacity to carry out the plan!

In assessing this risk, the Board will need to consider all its "asset" aspects: Financial capital, Infrastructure, Human & Intellectual capital, Relationship capital, and Technology capital. Both the Infrastructure and Human/Intellectual capital domains should have the VP HR's involvement, assessment and recommendations.

Infrastructure – includes buildings, equipment, and most important to HR – organizational structure. Is the Organizational Design of the enterprise most appropriate for attaining the plan? Do the current internal processes and systems give the people the right information/knowledge, support, and incentive to maximize performance? Increasingly, dysfunctional processes and systems are not just the concern of Operations management but also Human Resources management.

Human/Intellectual Capital – includes Leadership/Management, professional expertise, and owned, unique and systematized or imbedded I.C. Does the organization have the leadership/management talent in enough supply, to deliver on the plan and achieve the desired future 'value positioning' of the organization? Are the professionals in the enterprise capable of innovating, building alliances/partnerships and advancing the value/features of products, programs and services amid the anticipated changing marketplace dynamics?

How will HR ensure that this knowledge/innovation enhancement happens?

What programs or initiatives are in place to ensure that the competency and capacity of both the leadership and professional ranks can deliver the results?

How will HR measure its success in its ability to proactively contribute to the organization's success?

In a technical-minded enterprise, or with a Board prone to focussing only on financial aspects, the VP HR and the whole HR department needs to be able to enunciate how it is working to address such risks and assure future performance in these above areas.

Board HR/Compensation Committee

This is the primary vehicle the Board creates to probe the HR area and better understand the policies, systems and practices of the people-side of the enterprise.

In this area, there are a few key concerns today.

1. Ethics Policy & Practice: Conflict of Interest Guidelines, Code of Conduct, Values & Principles Statement, Outcomes Measures for Transparency Reporting.
2. Compensation & Benefits: Management Remuneration Policy, Pay/Employment Equity, Bonus/Benefit design and payout implications.
3. Succession Planning: Management & key Professionals replacement, turnover/recruitment trends, competency and experience development plans, etc.

Sarbanes-Oxley and the Canadian Securities Commissions have focussed on executive compensation and in particular such things as the treatment of stock options and executive loans – requiring significant work in reporting and new policy development. However from a governance perspective, the bigger sustainability issues are really around ensuring that a vital ethical framework is established and lived within the enterprise and by suppliers/partners. Also, Succession Planning is a huge issue amid both a competitive global talent marketplace and the advancing juggernaut of retirement turnover in North American professional and management ranks.

In this respect the VP HR will need to be proactive in advancing these issues for the Board committee's consideration along with recommended action plans, policies, and organization design implications.

Conclusion

Evolution of Governance standards and practices are putting pressure on all aspects of the enterprise today. In the Human Resources area, this will require all HR practitioners to understand and better enunciate what they are doing to ensure knowledge and innovation practices add to the ability to attain the desired 'value positioning' of the organization over the next few years. They also need to support the VP HR and senior management in proactively suggesting programs, policies and organizational design that will both reduce risk and enhance achievement of the strategic plan.

Unfortunately, regulatory bodies have increased the overall workload with respect to reporting and public transparency. However, in a positive light, HR can champion an outcomes-based approach to thinking, knowledge/innovation facilitation, performance management and measurement throughout the organization.

These can be significant contributions to improved governance and enterprise practices in the coming years.

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