



Are we a talent factory or a wasteland? The role of HR *in* the Board and *on* the Board

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Content

- Some preliminary comments
- My presentation will be a mixture of three topics*:
 - HR *in* the Board: are people issues dealt with adequately by the Board? What input should HR make?
 - HR *on* the Board: should the Board gate be opened to HR managers?
 - HR *of* the Board: making the Board function as a team
- Time for comments and questions

* Distinction made by my friend Herman Daems

A preview

- HR, even where on the Excom, is not very present in the Board deliberation
- Part of the issue is with HR: not always enough of a business partner
- Part of the issue is with the Board: it tends to focus on the big leaps, and not the long marches

A preview (2)

- The exception is the Remuneration Committee, where HR gets the chance to interact with key Board members
- Remco discussion and deliberation however tends to be less shared and owned by the full Board than Audit Committee deliberation
- This may change somewhat with the new law

A preview (3)

- Chairmen need to move the Board discussion to HR and organizational issues including: organizational capability to deliver the strategy, leadership development, management and workforce demographics, succession planning, etc...

- Only that way will we truly become talent factories.

The basis for my comments

- Founder of Insead's International Director's Forum (2001-2008)
- Multiple Board reviews in Europe and South East Asia
- And some Board experience:
 - Listed: Kinopolis, Quest for Growth
 - Fund Management: Governance for Owners (UK)
 - Private Equity: Procuritas (Sweden), Capricorn, Stark (Czech republic)
 - Family business: Vandemoortele, Dujardin Foods, Pieters Visbedrijf, etc.
 - Non profit: Insead, Vlerick, Guberna, etc.

Let's start by acknowledging that a Board is a very peculiar group

- People who often think themselves important
- Who are driven or fly in to occasional meetings
- To simultaneously monitor and support management
which are two somewhat contradictory roles

Let's start by acknowledging that a Board is a very peculiar group (2)

- Having to do this in real time
- Largely in the presence of the people they are supposed to monitor and
- Largely based on information presented by the very people they are supposed to monitor

With a somewhat daunting responsibility

- A very broad responsibility in terms of roles:
 - *Choosing, evaluating, developing and rewarding leadership*
 - Setting/ratifying strategic direction
 - Evaluating performance and monitoring risks
 - Setting the tone and guiding values
 - Evaluating one's own functioning

With a somewhat daunting responsibility (2)

- Which they perform to a different extent
 - Directive Boards
 - Engaged Boards
 - Questioning Boards
 - Passive Boards
- Being on the Board is like being a volunteer fire brigade:
 - Very different in normal times and in crisis time

Are we realistic in what we expect from the Board?

- In normal times there is little time to discharge these roles
 - between Four and Ten meetings per year
 - of Three to Six hours (plus an annual offsite or site visit)
 - for a total of Thirty to Sixty hours
 - of which between perhaps half in presentations

Are we realistic in what we expect from the Board? (2)

- With perhaps 10% spent on leadership and management issues
 - 11% on leadership and management issues (min 5%, max 30%)
 - 22% on setting strategic direction (min 10%, max 30%)
 - 43% on monitoring performance and risks (min 25%, max 60%)
 - 8% on values and stakeholder issues (min 5%, max 15%)
 - 5% on reviewing its own function (min 4%, max 10%)
 - 11% on other issues like rectifying executive decisions, legal reports, operational issues (min 0%, max 25%)

Yet people issues are fundamental to performance and risk

- In each role HR issues tend to be below the surface
 - Strategy: execution depends on capabilities and commitment
 - Performance management: it ultimately is about individual performance contracts
 - Risk management: the human factor is often the greatest risk
 - Talent and competence development are key to competitive advantage
 - Values: a culture of integrity needs to live at the coalface

Yet people issues are fundamental to performance and risk (2)

- In no strategic decision is this more the case than in mergers or acquisitions: organizational and managerial due diligence is rare.
- One reason you want CEO/senior business management experience on the Board is the ability to smell and calibrate the underlying organizational and people issues not apparent in the strategy and finance discussion

Should therefore not more HR managers enter the Board?

- More will not be difficult, there are very few...
- Not automatically however: the Board is not meant to be a collection of specialists
- It is meant to be a balanced team of generalists who bring however specific and complementary experience bases to the table (functions, industries, regions and gender)

Should therefore not more HR managers enter the Board? (2)

- If a financial person is preferred/required to chair the Audit Committee, shouldn't an HR experienced person share the Remuneration Committee? The law says the committee must be competent with respect to remuneration issues!
- Individuals with combined HR background and business experience would indeed bring a different sensitivity and experience base to the Board.

Some HR issues for the Board

- Selecting, evaluating and rewarding the CEO
- Approving reward for the next level and reward policy for the organization
- Assuring availability of the required people resources

Some HR issues for the Board (2)

- Incorporating the people issues in their strategic decision making
- Verifying there is a will and process to bring the company values to the frontline

CEO selection

- Selecting the new CEO is the most important decision the Board takes: the CEO is the strategy
- Asking a CEO to go is one of the Chairman's most difficult jobs, and as often mostly done too late
- No matter how influential he is, it is not up to the previous CEO to name his successor

CEO selection (2)

- Succession planning often thwarted by circumstances (crisis or strategy change)
- Does the Board have a first hand feel for the insiders?
- Outsiders vs. Insiders vs. Outside Insiders
- Need to clarify the compact between the Chairmen and the CEO

The evaluation of the CEO

- There is no such thing as half trust
- Often not honestly done, the Board axe falls suddenly
- Starting with self-evaluation

The evaluation of the CEO (2)

- Against performance goals - quantitative and qualitative
- Across key areas: vision, strategic thinking, execution, innovation, team strength, succession preparation
- Importance of candid feedback

Rewarding the CEO

- Ex ante quantitative goals vs. ex post judgment
- Increasing use of consultants to prove process and discharge responsibility
- Typically three components
 - Base salary
 - Bonus on quantitative and qualitative ex ante objectives, increasingly from immediate bonus to deferred bonuses
 - From stock options to restricted shares

Rewarding the CEO (2)

- Golden parachutes
 - Ex ante: strong bargaining position of the top candidate
 - Ex post: price for guilt

- Importance of goal setting discussion: benchmark, stretch, etc.

Reward Policy

- The Board needs to review and approve salary policy, bonus policy and stock option plans
- The CEO however is responsible for the rewards in the organization
- The Board should have a strong advisory role in his recommendations for N-1 management

All this moved from Code to Law (April 10, 2010)

- A Remuneration Committee consisting of Non-Executive Directors
- The majority of which must be independent
- The committee must have the necessary competence
- Meets minimum twice a year, and as often as necessary

All this moved from Code to Law (2)

- Must develop remuneration policy and set remuneration
- A remuneration report will be presented to the Works Council
- It includes the principles of remuneration and their link with performance, as well as the characteristics and elements of variable remuneration

All this moved from Code to Law (3)

- Golden parachutes are maximum 12 months, exceptionally with justification 18 months, and must go for advice to Works Council and for approval to General Assembly
- Individual reporting of all elements of remuneration for Board members and the CEO, collectively for the Executive Committee

Assuring availability of the required people resources

- The Board needs a sensitivity to HR issues, as human resources are more difficult to manage than capital
- Specifically they need to incorporate the people requirements of specific strategic projects into their decision making (especially in case of acquisition)
- Reviewing organizational capability to execute the strategy in general: do we have a medium term HR plan as we have a strategy and a financial plan?

Assuring availability of the required people resources (2)

- Nine Box analysis (performance vs. potential)
- Reviewing talent policy:
 - internal promotion vs. external hiring balance,
 - breeding policy vs. ST approach
 - gender and diversity policies

Bringing corporate values to the coalface

- CSR and ethics for the annual report and to feel good?
- Bringing values to the coalface is an HR issue of building commitment and balancing goals and performance evaluation

People governance: healthy trend or new fad?



People governance: healthy trend or new fad?

- Where does it come from?

Epegon: European People Governance Network

- What is it ?

The implementation of ethical principles and attitudes that lead to the integration of people related questions in all stages of the decision process of the governing bodies of the company in order to leverage sustainable growth

People governance: healthy trend or new fad?

- Expert group working on white paper
- Linked to the stakeholder perspective: the Board's role to pursue performance in three dimensions: People-Planet-Profit
- Also attempts to have “a people mandate” on the Board
- A back door for Mittbestimmung re-invented?

Back to where we started

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- Part of the issue with HR: not always enough of a business partner
- Part of the issue is with the Board: it tends to focus on the big leaps, and not the long marches (strategic decisions vs. strategy execution and operational excellence)

Back to where we started (2)

- The exception is the Remuneration Committee, where HR gets the chance to interact with key Board members
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Back to where we started (3)

- Chairmen need to move the Board discussion to HR and organizational issues, including organizational capability to deliver the strategy, leadership development, management and workforce demographics, succession planning, etc...
- And they need to manage the HR of the Board...

We will need all the help we can get to improve corporate governance

- Codes, guidelines and laws can upgrade very poor practice to base level, but can not improve the real quality of governance
- Improvements in the Board will have to happen Board by Board:
 - quality charter and role division
 - quality individuals and team
 - quality time
 - quality underlying processes (strategy, performance mgt, risk mgt, succession planning, etc.)
 - quality board process (Chairperson's role)

We will need all the help we can get to improve corporate governance (2)

- The Board should incorporate people considerations in its strategic decisions, its risk management and its values roll-out
- Leadership and talent attraction, development and reward merit a much higher attention on the Board agenda, and in Board composition
- Even then we will need more active ownership responsibility exercised by share-holders
- And self-responsibility by responsible management