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Key Themes of 2004 Thought Leaders Retreat

Overview

Where was HR during the recent corporate governance scandals? What could HR have done? In most instances the answer was that HR was not involved, as HR was not in the boardroom or on the board agenda. But, human resource executives have the opportunity to change the role of HR. Going forward, HR can play a key role in supporting the board to minimize the likelihood of future scandals and to build better, more effective organizations.

HR executives must demonstrate that most business issues are people issues and must convince the board of the importance of focusing on these people issues. HR executives will need courage, boldness, and persistence to build relationships with the board and to get HR on the agenda. In addition to helping with necessary compliance efforts and traditional compensation discussions, HR can play a vital leadership role in shaping a values-based culture. This includes selecting board and management leaders through succession processes that require character, and developing companies where self-regulation is more important than complying with outside regulation.

Context

The SHRM Foundation’s 2004 Thought Leaders Program focused on HR leadership at the board level, a particularly relevant subject in light of the recent corporate scandals, the subsequent legislation, and a renewed focus on governance. The program included interactive sessions discussing HR’s role in governance and related board issues.

Key Themes

- The main consequence of the recent scandals is a lack of trust. Compliance with regulation alone won’t restore trust. Greater self-regulation is required. Today, the public does not trust companies; investors don’t trust markets; and employees don’t trust leaders. Regulation will serve to increase disclosure, documentation, and boardroom fear. In this environment, boards are focused on compliance and have become increasingly risk averse. But, checking the boxes to comply is not adequate; organizations must thoroughly assess and prioritize their risks and improve their processes and controls.

However, far more important than regulation is building an ethical culture at all levels of the organization where people actually live the values of the organization and where self-regulation is more important than outside regulation.

- The current board and governance environment provides an opportunity for HR executives to get HR issues on the agenda. Savvy HR executives are constantly looking for opportunities where HR can add value to the company, and they see any period of change or uncertainty as ripe. The key is to understand the critical business challenges and to demonstrate how HR can deliver solutions to these problems. The changes and uncertainty surrounding governance, which is fundamentally a people issue (as are many other business issues), represent a tremendous opportunity for HR executives to add value.

By taking a leading role in working with the board to address compliance, HR can provide a unique perspective, demonstrate expertise, and begin building relationships. Other areas where HR can be proactive in bringing solutions forward include compensation and succession planning. Over time, HR’s role in board discussions can increase as HR becomes the “go to” resource for all people-related matters. An example of how this can play out is at Hewlett-Packard where the compensation committee became the HR committee and a calendar was developed for the board to address various HR issues over the course of the entire year.
• **HR executives can leverage HR competencies to support the board.**

HR has unique and relevant knowledge and skills that can assist the board in performing its duties. This includes knowledge of selection and hiring that can help the board in selecting new members; experience with development and orientation that can help board members come up to speed; expertise in performance management that can help the board evaluate their individual and collective performance; knowledge in defining roles and responsibilities than can help the board clarify roles; expertise in succession planning that can be applied to board succession; and expertise with rewards and recognition programs that are relevant to compensation issues.

It is necessary for HR to demonstrate this expertise to the board and to build a relationship with the board where HR is involved in and contributes to all discussions involving people. This won’t happen overnight but will be achieved by creating a perception that HR’s knowledge is necessary.

• **HR can take the lead in incorporating personal qualities such as character and ethics into board and executive succession planning.**

In several sessions the discussion touched on the importance of not just considering a person’s business accomplishments, but also weighing personal characteristics such as honesty, character, ethics, and values as part of the selection process for both board and management positions. This is an area where HR can take the lead in refining the selection criteria, getting the subject in front of the board and management, and working to turn words such as “we care about values” into concrete actions. Related to selection are policies for enforcing breaches of ethics among existing employees. These actions send a signal to employees and customers regarding the company’s culture and values, and what behaviors will be tolerated (or not tolerated) and rewarded.

• **HR executives need to have courage, be bold, and be able to influence and persuade.**

Taking the lead to get HR on the board agenda and to have HR included in board conversations will not be easy. The perception that “HR is soft” will have to be changed by demonstrating the business impact of HR initiatives. In addition to making a compelling business case, HR executives will have to move outside of their traditional comfort zone, become bolder and more aggressive, make recommendations based on expertise and judgment (even if all of the facts do not exist), and have the courage to speak their minds and consciences on difficult subjects like ethics, values, and culture. While such behaviors may be uncomfortable and entail risk, they are required to gain admission to the boardroom and to elevate the discussion and importance of HR. Those who have shown boldness and courage have often been rewarded for doing so, and strongly encourage other HR executives to take this tack.
Overview

The rash of corporate scandals has diminished the trust of investors, employees, and the public.

Understanding the causes of these scandals can help companies and HR executives determine how to prevent these situations. Since many people believe the problems were caused by "bad apples," more diligence needs to be exercised in selecting senior executives by focusing on personal qualities such as character. Also, reworking incentive plans, reshaping the company's culture, and reengineering the board are other ways to head off these problems. Most important, HR executives must show courage to stand up for what is right and hold executives accountable for their behavior.

Context

In this interactive discussion that examined the causes and consequences of the recent governance scandals, Dr. Wright drew conclusions and helped identify actions that HR executives can take to make a difference in their company's governance, thus minimizing the risk of future scandal.

Key Learnings

- The primary consequence of the recent corporate scandals is a lack of trust.
  Participants discussed the far-reaching consequences of the recent scandals. They include an intensive corporate self-examination process, aversion to risk, difficulty recruiting board members, the expenses and complexities associated with regulatory compliance, and a move by some companies to go private. But the core consequence centers on a lack of trust in three key areas:
  1) Investors no longer trust the markets: The scandals have erased approximately $6 trillion in market value, and the stock market continues to stagnate with new scandals being announced on a regular basis.
  2) The public no longer trusts corporations: Research shows that 63% of those surveyed say executives today are less honest and trustworthy than they were ten years ago. The result of this erosion of trust has been that politicians, as the representatives of the public, have imposed significant regulation on companies, requiring costly disclosure.
  3) Employees do not trust their leaders: Decreased trust in senior management results in decreased employee motivation and commitment, which can directly impact organizations through increased turnover.

- The primary causes of these scandals are believed to be both bad apples and systemic failures.
  The discussion of causes generated a long list: greed, arrogance, lack of board oversight, lack of leadership and values, lack of adequate punishment to serve as a deterrent, catering to impatient capital, conflicts of interest, and even a contrarian argument that the overregulation of public companies was a driver. However, the primary arguments were:
  1) The bad apples hypothesis: This places the blame for the scandals on those individuals who behaved unethically.

  "Executives behaved like preschoolers saying, 'But they are doing it,' and that made it okay."
  — Participant

  2) Systemic issues: This includes dysfunctional incentive and compensation structures tied to short-term stock options, dysfunctional corporate cultures, poor controls, and an overall out-of-control capital markets system driven by analysts and auditors.

  "The combination of arrogance, a dominant leader, and the culture and environment made it difficult to object."
  — Participant

- By understanding the causes of the governance failures, HR executives can formulate solutions.
  Creating solutions will be easier said than done. These include selecting ethical leaders, building ethical cultures, redesigning executive incentives, using independent analysts, redesigning boards, and redefining their roles.
Specific solutions will flow from in-depth studies of the most significant problems. For example, if “bad apples” are the issue, this points to a problem in leadership selection. It raises the question, “What are potential qualities or characteristics that are indicators of bad apples?” The answers include regular lying; self-promotion; an overvaluation of power, money, and title as indicators of success; and a tendency to inflate one’s contributions while discounting those of others.

“Never give a job or a title to a person who can’t live without it.”
— Patrick Wright, quoting the former CEO of ServiceMaster

When the issues are systemic, HR needs to look at how the company’s values and culture have changed over time to see what is valued and how people are rewarded. An example discussed was Arthur Anderson, a company that began as a tax and accounting firm rooted in solid ethics, and was the subject of case studies on ethics. However, as their business became dominated by consulting, the culture evolved to one of satisfying the client by doing whatever they needed. Companies don’t change overnight; they do so over years without even realizing it by tolerating small modifications in ethics.

- **HR managers have a responsibility to speak up.**

Especially troubling about the wave of scandals are the cases in which HR professionals remained silent. While HR people talk about values, culture, honesty, and courage, too often they don’t speak up when necessary.

“There is a disconnect between what we [HR executives] say, and what we do.”
— Patrick Wright

The solution to governance problems is less about governmental regulation, but more about self-regulation. Diligence is required in selecting leaders, reviewing incentives, monitoring the culture, building strong boards, actively searching for conflicts of interest, and focusing on the right things. Even more important is that HR executives demonstrate the courage to stand up and be heard, calling on CEOs, boards, and executives to be accountable. In few instances did HR executives participate in any outright crimes; their true crime was their silence.
The Changing Nature of the Board: A Conversation with Ram Charan
Speaker: Ram Charan, Author
Moderator: Barbara Neisendorf, President, Neisendorf & Associates

Overview
As a result of the recent corporate accounting scandals, many boards are now spending 80% of their time on non-value added activities, such as reviewing SEC filings and monitoring corporate compliance programs. This time could be better spent on important subjects that drive value, such as succession planning, finding more effective ways to link compensation to performance, evaluating and improving the corporation’s core strategy, developing the leadership pipeline within the corporation, and monitoring corporate performance.

Context
Mr. Charan shared his thoughts on the changing nature of the board through an interactive question and answer session with Foundation members.

Key Learnings
- The most effective corporate boards are those that are “progressive.”

Boards can be thought of in three ways: (1) ceremonial; (2) liberated; and (3) progressive. In this age of heightened corporate scrutiny, the ceremonial board – where prominent board members are directors in name only and do little actual directing – is no longer appropriate or acceptable. That said, a board should resist the urge to respond to the scandals by becoming a rebellious and “liberated” board where directors dissent with management proposals merely for the purpose of demonstrating their independence. Instead, boards should strive to be progressive. A progressive board takes an active role in helping management develop a consistent corporate strategy and instill the highest level of values through the organization.

- Boards play a key role in evaluating the strategy.

The board should insist upon a clear statement of the company’s strategy, with the CEO and the management team responsible for developing and recommending this strategy. If the strategy is consistent and cohesive, board members can help the management team refine the strategy by asking the right questions. In cases where the strategy is unclear, entails significant risks, or isn’t well supported, it is the board’s role to raise legitimate questions about the strategy with the management team. In those instances when a clear strategy isn’t possible, such as when the company’s industry is undergoing a major restructuring, the board should work with management to develop a practical short-term strategy in line with current developments in the industry.

- There is no “one-size-fits-all” formula or set of rules for board structure and governance.

There is a tendency for the financial community to evaluate companies using “one-size-fits-all” rules and metrics. For example, financial analysts like companies where the directors own 2% or more of the company’s stock. Yet, this rule has never been supported with empirical evidence demonstrating a correlation with better performance. Director ownership may make sense in some cases but may not in others. Another trendy belief that lacks proof is the segregation of the Chairman and CEO functions. This may or may not be a good thing depending on a company’s particular situation. Executives and board members should be wary about simplistic conclusions that create hard and fast rules.

“Most boards have been asleep at the switch as management has been fixated with short-term results.”
— Ram Charan
Directors must allocate their scarce time to add the most value to the company.
The heightened scrutiny of public corporations and the increasing specter of personal liability for directors have necessarily caused directors to become more contentious and less likely to be a rubber stamp for executive proposals. And while constructive dissent on the board can be healthy for the direction of the company, directors must be mindful not to get caught up in minutiae and ego-driven battles. The time reserved for board meetings is limited and the members must make certain to make the best use of that time. HR managers can play a role in helping to diffuse disputes between directors and helping board members make effective use of the time. However, HR managers must be careful to avoid being caught in the middle of director disputes.

Directors should be selected based on personal qualities and knowledge; not on the basis of functional titles.
Trust is all-important in today’s climate. The members of the board must be able to trust the judgment of another director and know that he or she has the best interests of the company at heart, will stand up for what is right, and won’t be driven by petty ego struggles.

In addition to being trustworthy, it is beneficial that directors be able to contribute to the board based on experience and expertise in a particular area. For example, if a key aspect of the corporate strategy is to expand into China, then it is important to have a director with experience doing business in China. In all cases, to be effective, a director must understand the business completely: how the company makes money; how resources get allocated; and how people get promoted. Incoming directors can best get this understanding through an orientation where they have the opportunity to ask questions and engage in a dialogue with members of the executive team and other key employees.

“I would like to see more HR people on boards, but they must know the guts of the business.”
— Ram Charan

Self-regulation is necessary for further improvements in corporate ethics.
Sarbanes-Oxley has affected corporate ethics, but the overall impact of legislation is limited. The corporate scandals of recent years were not simply the result of one or two bad actors. The interdependence of various constituencies caused a system that spiraled out of control. Boards must play an important role in addressing these problems not only by complying, but by being proactive in doing a better job of monitoring the company’s internal values system. Also, outside constituents, such as shareholders, must continue to demand more accountability from the board and management. (In the absence of boards, shareholders, and management taking the initiative to drive improvements, there will be greater regulation, which will almost certainly not solve the problems that exist and, as legislation is prone to do, could have significant unintended consequences.)

Other Important Points

Courage. HR managers and others must be courageous when asked to compromise their values and stand up for what is right.

Pay for performance. Many boards are attempting to find better ways to link performance to pay but most board members lack the requisite experience and knowledge to make meaningful changes in this area.
Overview
The requirements of Sarbanes-Oxley impose new responsibilities not just on CEOs and CFOs but also on HR managers. In addition to performing their traditional human resources functions, HR managers are often involved in defining the “scope” of compliance. This involves assessing the company’s risks to determine exactly how the company must comply, and then being involved in the actual compliance effort which involves extensive documentation of key processes and controls. While this requires additional effort (often with no additional resources), it represents an opportunity for HR to better understand and improve important processes, to play a key role in a critical organizational undertaking, and to build credibility by interacting with other functions.

Context
Mr. Boro and Ms. Duarte explained the basic requirements of Sarbanes-Oxley, in particular Sections 404 and 302, and how these requirements can add new responsibilities (and opportunities) for HR managers.

Key Learnings
- Most HR managers are generally aware of Sarbanes-Oxley, but may not be aware of its depth and complexity.
  Sarbanes-Oxley was instituted to improve the way financial information from public companies is reported so that fiascos like Enron and others are not repeated. But, the extent of Sarbanes-Oxley is far greater than many people realize. This legislation has 11 “titles” which deal with subjects such as an oversight board, greater auditor independence, more responsibility for the corporation and for its senior executives, heightened reporting requirements, enhanced whistleblower provisions, and far greater emphasis on internal controls. The penalties and risks of non-compliance are significant. Because of the importance of people and process, compliance with Sarbanes-Oxley has great relevance to HR.

  • To effectively and realistically comply with Sections 404 and 302 of Sarbanes-Oxley, HR managers should do “scoping” to focus on the biggest areas of risk. Sections 404 and 302 of Sarbanes-Oxley focus on controls and involve demonstrating, through documentation and testing, control processes. Compliance is an incredibly time-consuming process and not every process in an organization needs to be documented and tested. The necessary first step is to decide “what’s in scope?” In other words to determine where the organization is at greatest risk, which controls are most vital, and to focus on those areas first.

  As a general rule, companies are focusing on assuring that controls are in place for areas that involve the largest amounts of money and the biggest risks. The greatest areas of concern are controls concerning executive compensation, payroll, health and welfare programs, pensions, and corporate equity plans. Compliance risks and other risks (i.e. diversity, ADEA) are important risks to an HR organization, but are not in scope for this Sarbanes-Oxley exercise. For those areas deemed to be in scope, complying with the regulations entails thorough documentation of the company’s internal processes and controls with explanations and flow charts, as well as testing the design and operation of the controls.

  • Proper controls are the key to providing accurate information to senior management.
  With proper controls, HR managers can insure that they don’t provide information to the CEO and CFO that is inaccurate due to negligence, willful neglect, or outright fraud. These controls should:
— Protect against misstatements in the corporate financials;

— Provide a level of security that corporate assets such as payroll and pension funds are not squandered or misappropriated and are generally protected against fraud;

— Provide a mechanism to insure that transactions on behalf of the company are being conducted in accordance with company policies regarding conflicts of interest with proper authorization and approval for transactions; and

— Provide for record retention to support the figures in the financials.

### Developing proper controls can actually improve organizational processes.

One of the benefits of this compliance process is that it will force HR managers to thoroughly understand and then document some of the key processes that are currently in place, which may not have been well understood. By understanding and documenting these processes, HR managers will be able to take actions that can improve the processes and can also insure that important processes can remain in place even if key employees who best understand the processes depart. Another advantage is that the process of building proper controls often strengthens relationships between HR, legal, finance, accounting, and compliance, which is increasingly important in today’s regulatory environment.

"Good processes are often there [in practice] but not always on paper. Your processes should be able to survive the ‘hit by a bus test.’ If a key member of your team were hit by a bus, could you continue implementing his or her HR function?"

— Carrie Duarte

### Inaccurate reporting from HR could result in costly financial restatements.

While CEOs and CFOs are now personally responsible for affirming the accuracy of the company’s financial statements, they must obviously depend upon others, including HR managers, to provide them with accurate information. Without proper processes and controls, an HR manager could supply the CEO and CFO with inaccurate information that could need to be restated in later periods, causing significant harm to the company and the executives. For instance, if the CEO and CFO receive inaccurate information about the extent of the company’s pension liability or its stock option programs, or the costs of salaries and benefit programs, both the company and these senior executives could be subject to significant sanctions under Sarbanes-Oxley.

### Other Important Points

- **Private companies.** While Sarbanes-Oxley only applies to public companies, many private companies are choosing to comply. This may make it easier to be acquired by a public company or to go public at a later date.

- **COSO.** To determine how to build effective controls, HR managers can consult Committee of Sponsoring Organizations (COSO) guidelines.

- **SAS 70 Audits.** If the company is relying on a third party to implement controls, it should make sure that the third party has undergone a SAS 70 audit for the specific outsourced services being provided.
Overview

For many HR executives, times have never been better for getting HR on board agendas and showing how HR can be a source of competitive advantage. However, before charging ahead to develop competitive advantage and execute new strategies, HR must create a stable organizational foundation where people’s uncertainties are diminished through clear explanations of where they fit in, how they will be compensated, and what tools and technologies will be available to assist them. HR executives are encouraged to be bold leaders who broaden the role of HR in their organizations. This is best achieved by building a great HR team and then by using this team’s strengths and talents to transform the larger organization.

Context

Ms. Bowick shared the hierarchical model she used at Hewlett-Packard (HP) to prioritize activities and allocate resources and discussed lessons learned in her career, especially during her last few years where she was involved in several major transitions (new CEO, major spin-off, major merger, etc.). She also answered questions from Thought Leaders participants and stopped at most of the tables during dinner to converse.

Key Learnings

- **The HR organization at HP developed a simple model for handling organizational change.**

  This model is an adaptation of Maslow’s hierarchy of needs, in which one set of needs must be addressed before an individual or an organization can move to a higher level. At HP, the three stages of organizational evolution were identified as Stabilize, Mobilize, and Energize.

  1) **Stabilize:** The foundation of the organization needs to be secure before an organization can be mobilized or energized. For example, HR resources need to be deployed during a major transition such as a merger, reorganization, or divestiture, when anxiety and uncertainty among employees are high. Employees need stability in the form of knowing what their new job will be; who they will be working for; what their benefits and compensation will be; and what tools, technologies, and training will be available. If these fundamental issues are not addressed up front, employees will have lingering questions, uncertainty, and lack of trust.

  2) **Mobilize:** Once stabilized, the organization can execute its strategy by aligning the necessary resources, tying performance systems to rewards, and defining and resolving organizational conflicts that pose a barrier to execution, such as functional or geographic conflicts.

  3) **Energize:** This involves becoming the best place for employees to work, developing workforce skills and capabilities that enable the organization to execute its strategy better than the competition, and motivating the organization to rise to a greater level.

HP’s Hierarchy of HR Interventions

These stages must happen in order; it is not advisable to mobilize or energize an organization that is not stabilized.

- **At HP, creating a stable foundation was critical during a period of significant transition.**

  After Ms. Bowick had headed HR at HP for six months, the company’s CEO “retired” necessitating a CEO search, and the decision was made to spin off an $8 billion part of the company into Agilent – unprecedented circumstances that shook the foundation of the company, requiring HR to focus on stability.

While interacting with the board during the CEO search, Ms. Bowick concluded that she had not been proactive enough with the previous CEO about bringing important
HR issues to the board. When the new CEO was on board, HR’s role with the board broadened as the compensation committee was renamed the “HR committee” and the committee’s scope expanded beyond just compensation. A calendar was established for the board to regularly deal with important HR questions.

- **HR professionals play a crucial role in implementing strategies as they have organizational wisdom and know-how about mobilizing change through people.** Mobilizing people is how to make a strategy work. HR’s role is to develop specific business- and human capital-related recommendations to take to the CEO and board regarding executing the strategy. When the merger between HP and Compaq was in the planning stages, HP’s board asked in great detail about the new organizational design, the cost savings likely to occur through synergies, and the best use of technology to train, empower, and communicate with employees. HR played a critical role in answering these questions, while also being deeply involved in planning so that the newly merged organization could hit the ground running.

  “If the head of HR, with the help of an enlightened CEO, doesn’t get the soft issues on the table, line managers will resort to the hard issues (like customer segmentation and product roadmap). But most mergers fail based on the soft things such as culture.”
  — Susan Bowick

1) Learn from your mistakes.

2) Get out of your comfort zone and be bold. Too often HR people are risk averse and unaggressive, wanting data to provide an answer to all questions before going out on a limb. A time of transition, however, requires that decisions be made without perfect data. HR executives need to have confidence and be bold in leading others.

3) You need a terrific team. To create the right capabilities for the company, first create the right team and capabilities in HR. This might mean up-skilling or even replacing team members. With the right team in place, HR can then help the rest of the organization.

4) Lead better than the best line manager you know. HR executives should understand the company, the strategy, and the organization; should model the values of the company; and should preempt line managers by coming to the table with specific ideas that will leverage people to benefit the business.

5) Lead through creation of a meaningful HR board agenda. Set an annual HR agenda and calendar with the board so that HR issues are constantly being discussed at the board level.

  “You can make the soft side of the company a competitive advantage.”
  — Susan Bowick

**Other Important Points**

- **Active issue management.** During a merger or crisis that receives media attention, articles and rumors will circulate on a daily basis. At these times, it is critical to be in constant communication with employees. At HP, they engaged in active issue management, wherein issues requiring frequent communication with employees were regularly placed on management’s agenda.

- **Other important lessons for HR executives include being bold, taking the lead, getting the best staff possible, and leading better than line managers.** Ms. Bowick shared key lessons learned from her career in HR, and particularly from her experience going through a series of rapid and significant transitions:
The Big Picture: Perspectives on Governance

Speakers: Susan J. Cook, Vice President, Human Resources, Eaton Corporation
Phil Johnston, Managing Director, San Francisco Office, Spencer Stuart
Barbara Neisendorf, President, Neisendorf & Associates
Moderator: Edward E. Lawler III, Ph.D., Professor, University of Southern California

Overview

Research confirms that boards matter – effective boards create more successful companies. Factors such as board size, the operating experience of the members, and the process of bringing new members aboard help companies grow larger faster. Despite the importance of people issues, separate research shows that most boards lack HR knowledge and expertise; HR executives are not highly represented on boards; and most boards have not put adequate succession plans in place.

However, experiences such as Ms. Cook’s at Eaton demonstrate what is possible. Under Ms. Cook’s leadership, HR has developed strong relationships with the board, and it is involved in supporting the board in the areas of member selection, orientation, evaluation, succession, definition of roles and responsibilities, compensation programs, and ethics programs. Because of her experience, Ms. Cook has recently been invited to join another company’s board – evidence of a rare but increasing trend of adding HR experts to boards.

Context

Dr. Lawler, Mr. Johnston, and Ms. Neisendorf discussed findings from research they have conducted on board effectiveness and succession planning, and Ms. Cook provided a real-world perspective on how HR can have an impact on a company’s culture and governance.

Key Learnings

- **Board structure and behavior can make a difference in company performance.**
  
  In his research, Mr. Johnston identified notable characteristics of the boards of 82 venture-backed companies that went public in 1996, comparing the most and least successful companies. His conclusions about the boards of the most successful companies include:

  - **Active board planning.** The boards regularly reflected on their composition based on the skills and experience needed at the company’s next stage. A typical evolution of a company’s board starts with angel investors, then venture capitalists (VCs) to help the company scale, later independent directors are added to go public, and as the company matures, seasoned executives are brought to the board.
  
    “The board is the launching pad for the success of the company.”
    
    — Phil Johnston
  
  - **Smaller size.** The boards of the most successful companies averaged seven members while the least successful ones averaged nine. The smaller the board, the more engaged and hands-on each director was.
  
  - **Operating experience.** Successful companies had directors with 15+ years of operating experience. Some venture capital directors possessed significant operating experience, but not all. Those with previous operating experience were highly valued by others on the board, and those without that experience were less likely to be retained through the companies’ growth.
  
  - **VCs exit earlier.** At the more successful companies, the VCs exited 2.5 years post-IPO, while the average was 4 years at the comparison companies. The more successful companies infused their boards with new directors earlier on.
  
  - **Limited insiders.** The more successful companies kept the founder(s) off the board, building it with valuable outsiders who could provide expertise not available in the company.
  
  - **Lead director as mentor.** At the more successful companies, the lead director often went beyond his or her designated role, also serving as a confidant or coach to the CEO. Because many of these CEOs face new
challenges, an experienced mentor with deep knowledge of the company can help immensely.

**Many boards fail to go beyond a ceremonial or advisory role, as they lack the information, knowledge, and power to do so.**

While boards are expected to provide direction and control, they often lack the information, knowledge, and power to do so. As a result, it is difficult for them to be more than an advisory board – a conclusion and situation that has not changed much in the past 10 years.

Boards receive information about a company’s financials and operations, and board members often have management experience, but they often receive little information about key areas of human capital. Subjects such as labor conditions, workforce competencies, employee selection processes, compensation practices, and HR-related risks are rarely shared with the board. Because they don’t understand these critical people-related issues, many boards are unable to provide the clear direction that is expected from them. In addition, few board members have backgrounds or expertise in human capital management. Further, board power is often lacking as CEOs usually exert strong control regarding board membership, concentrating power in the CEO and not the board.

> “There are big gaps in what is needed to go beyond a ceremonial or advisory board to provide more control and direction.”
> — Edward E. Lawler III

**Most organizations don’t believe they have succeeded in developing ethical future leaders through their succession planning efforts.**

Ms. Neisendorf summarized her research dealing with succession planning, noting that while leaders were previously sought based on capabilities and business results, now character and ethics are required as well. While good information exists on a person’s business skills and results, it is harder to know about his or her ethics. The best way to gather this information is by observing a person’s decisions and behavior over time.

> “My function is only going to have as much influence as I have.”
> — Susan J. Cook

In grooming a new generation of ethical leaders, most CEOs and directors are concerned about lack of “bench strength,” and while most business plans include significant people risks, succession plans are not effectively resolving these risks by creating a reservoir of qualified “next generation” leaders. On the whole, CEOs express more confidence than directors regarding succession, most likely because CEOs are closer to the situation. However, this indicates that succession information is not being communicated up to the board level.

**The portfolio of knowledge and skills used by HR in driving the business can also be used to support (and build relationships with) the board.**

At Eaton, under Ms. Cook’s leadership, HR has understood the needs of the board and has leveraged the department’s capabilities to address these needs. In a proactive manner, Ms. Cook has built relationships and constantly sought new opportunities in which HR can support the board. Examples include leveraging HR’s skills in selection and hiring to help the board select new members; leveraging HR’s abilities in employee development and orientation to help orient new board members; extending HR’s expertise in performance management to help create a process to evaluate board performance; taking HR’s knowledge of succession planning to help the board with succession issues; and taking the initiative to assist the board in defining roles and responsibilities, addressing compensation issues, and developing programs regarding ethics.

> “What boards and CEOs need from succession planning is to develop executives to lead companies to ‘responsible business success.’”
> — Barbara Neisendorf
• Despite a strong rationale to have HR expertise on the board, few HR executives currently sit on boards, though their presence is increasing. It is still rare that a board will seek a director with HR experience. More common is that through personal contacts a CEO or a member of a board will be impressed by a senior HR person’s general business acumen, as well as his or her HR knowledge, and will invite the individual to join a board. Bruce Carswell noted in a later session that he became a director of three boards through personal contacts, and he was recruited to join a fourth. It seems that the demand for HR expertise, however, is gradually increasing.

Other Important Points

• Contacts matter. Contacts can help you get on boards. By maintaining contacts with other HR people, you can check on potential candidates “off the record,” and help your company’s board select new members. This has been valuable to retreat participants, who have been able to catch possible mistakes.

• The Japanese approach. One Foundation member pointed out that when Japanese companies enter new markets or start new businesses, their first hire is often an HR person charged with building the organization – an approach not often taken by American companies.
HR Leadership at the Board Level: Identifying the Opportunities

Speakers: Susan Bowick, Executive Vice President, Human Resources and Workforce Development, Hewlett-Packard Company (retired)
Bruce Carswell, Senior Vice President, Human Resources, GTE (retired)
Susan J. Cook, Vice President, Human Resources, Eaton Corporation
Richard Hallock, Executive Vice President, Occidental Petroleum Corporation
Laurence G. O’Neil, Senior Vice President, Human Resources, Kaiser Foundation Health Plan and Kaiser Foundation Hospitals
Moderator: Homa Bahrami, Ph.D., Senior Lecturer, University of California, Berkeley

Overview

HR executives can become trusted advisors to their boards of directors, and even in some instances can attain board membership. When this happens, it is not by accident; it is because the HR executive has, over time, changed the perception of human resources and has demonstrated how HR can add strategic value to the company. Because many company, board, and strategic issues are “people issues,” human resource executives can build credibility by addressing these issues to benefit the company. In addition, many executives have increased the role of HR by constantly looking for opportunities to get involved in solving important business problems.

Context

The panelists chronicled the paths that led them to become trusted board advisors and to serve on corporate boards. They also shared some of the key insights that led to their inclusion at the highest level of corporate decision making.

Key Learnings

- Executive compensation issues often provide an entry point into board-level conversations.

  The traditional HR role of assisting the board in assessing and developing compensation plans is often the initial “foot in the door” that provides HR executives with exposure to the board, and vice versa. An HR executive who can demonstrate a thorough understanding of the company’s strategy and how to structure compensation consistent with that strategy can quickly become a trusted board advisor. By building trust as a knowledgeable and reliable resource, HR executives can build relationships and find themselves becoming the “go to person” whenever personnel issues arise.

- It is important for HR executives to show the CEO, the board, and the rest of management that many corporate issues are actually “people issues.”

  Once an HR executive has earned the board’s trust on HR issues, he or she can create a broader role by demonstrating that many corporate issues are “people issues,” even those that don’t necessarily relate to traditional HR functions. For example, a decrease in revenues may be just as much a people issue as it is a marketing issue: perhaps the real problem is that the wrong person is heading Marketing. HR executives can add tremendous value in thinking about how people issues affect the entire business. It is estimated that perhaps 60% of board agendas contain people issues. HR executives must be aggressive in calling out the people issues to management (as they may not realize that a business issue is truly a people issue) and immersing themselves in the conversation and decision-making process.

“If it has to do with people, HR must be there.”
— Laurence G. O’Neil

- HR executives should constantly be looking for opportunities for HR to add value to the company.

  Traditionally, HR executives have not been given a seat at the table of high-level corporate decision making. Therefore, HR executives must make an extra effort to gain access by constantly and proactively looking for opportunities to use their specific HR expertise to help solve business problems that might be outside the traditional purview of HR. This requires that HR
executives clearly understand the company’s strategy, priorities, and those issues that are the CEO’s and board’s “hot spots” and to create solutions drawing on their expertise.

“Keep asking yourself, ‘What are the HR implications?’ and work to find an ‘HR hook.’”
— Susan J. Cook

**Change presents great opportunities for HR executives.**

Changes within a company’s legal or business environment allow HR executives to provide greater value to the senior executives and the board. For example, if the company undergoes a merger or acquisition, HR can be instrumental in resolving corporate culture conflicts and creating new compensation structures. Likewise, the new Sarbanes-Oxley regulations provide an opportunity for HR executives to create value for the company as well as the CEO and CFO by putting controls in place that help the company meet its increased reporting obligations. Once again, the key is for the HR executive to be on the lookout for these opportunities and to gain the trust of senior management and the board by using good judgment, showing expertise, and being a team player.

**HR experts are increasingly being considered for and invited to join boards.**

While still small, the number of boards deciding that an HR expert is a valuable addition has increased significantly in the past few years (with several HR experts who serve on boards in attendance). This trend makes sense as companies increasingly see people as their competitive advantage and desire deep “people” expertise, as has previously been the case with finance or marketing. It is important for those with an HR background who are interested in serving on a board to be viewed as not simply an HR person, but as a well-rounded business person with particular expertise in HR.

Including an HR expert on the board (either the company’s head of HR or an external board member with HR expertise) sends a positive signal to employees about the importance of people, and signals to other stakeholders that the organization views people as a key asset of the company.
Where We Go From Here: Facilitated Discussion

Speakers: Susan Bowick, Executive Vice President, Human Resources and Workforce Development, Hewlett-Packard Company (retired)
Bruce Carswell, Senior Vice President, Human Resources, GTE (retired)
Susan J. Cook, Vice President, Human Resources, Eaton Corporation
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Moderator: Homa Bahrami, Ph.D., Senior Lecturer, University of California, Berkeley

Overview

HR executives aspire to play a more prominent role in helping their organizations succeed. This will happen as HR managers increasingly evolve beyond being just experts in human resources to being savvy business people. By speaking the language of business, framing people issues as business issues (and vice versa), and making a business case that demonstrates impact, HR will be seen as an invaluable member of the management team. Getting there will require human resource executives to take the initiative, demonstrate patience and persistence, and build a distinctive point of view. In addition, they must have both business and HR expertise, and must be willing to seize every opportunity to demonstrate HR’s ability to deliver results.

Context

The panelists discussed a variety of issues and responded to wide-ranging questions. In particular, panelists discussed the challenges faced by HR executives as they are now occupying a more significant and strategic role.

Key Learnings

- While HR desires greater influence and a seat at the table, that influence can’t be forced; it must be earned.
  Pounding a fist and demanding to be granted a seat at the table doesn’t work, nor does getting the CEO to force executives and line managers to collaborate with HR. Forced inclusion does not create respect and only serves to breed resentment. The goal is to be invited to the party, not to simply crash it.

  The right way to get there – and to stay there – is by demonstrating the ability to add value to the business through an intimate knowledge of HR that helps address the key business issues being faced. Adding value with practical, real-world solutions will make the CEO and other executives demand that HR be at the table because HR’s involvement yields better business results.

  “You must earn your influence.”
  — Richard Hallock

- Having a credible voice with the board and management means speaking the language of business and persuading others by making a compelling business case.
  Despite the importance of people issues, HR executives often struggle to get the attention of the board and senior managers. A starting point for HR executives is to frame important HR issues in clear business terms and to speak the language of business. (Language is critically important as many executives don’t see HR executives as credible business people. Speaking the language of business is necessary to gain credibility and to overcome this perception.) Part of speaking the language of business is to discuss solutions, demonstrate impact, and present ideas in the form of a business case.

  “The key is to demonstrate impact and to find opportunities to get into the game.”
  — Susan Bowick

HR executives should constantly be looking for opportunities to add value to the business by understanding the key business issues, developing people-related solutions, and selling the ability of the HR organization to solve problems. Examples mentioned include taking the lead in succession planning, and viewing Sarbanes-Oxley as an HR-related project and leading the organization’s compliance efforts.
• **Becoming a key member of management requires building relationships and trust.**

In this context, trust is something that is earned over a long period of time; there are no shortcuts. Yet, by constantly demonstrating a command of the HR function and a willingness to be a true team player, HR executives can earn a place of influence. In part, they accomplish this feat by demonstrating a thorough understanding of the company’s business so that they may serve as a partner from a financial standpoint. Of course, it is also important for HR executives to play the political game and build relationships with other senior executives and board members, in particular with the CEO and the CFO. This is often done by serving as a willing resource for executives and board members to draw from when they are confused or unsure about how HR-related issues come into play in formulating a particular business strategy.

• **For HR to have an increased role, the HR organization must have the right skills and must be structured to help line managers.**

Too often, HR operates in a fragmented manner, with silos of specific expertise. Having specialized silos prevents HR from working as a cohesive team to help line managers solve their problems. There is a strong argument that narrow HR specialists may not make sense; of greater value are seasoned HR generalists who have knowledge of all key areas of HR. These generalists are better positioned to work with business managers on a range of issues.
Overview

No company can succeed long term without organic growth that is sustainable and profitable. Growth is a result of a company’s strategy, culture, capabilities, and ability to execute. Because these factors are people-driven, HR plays a key role in a company’s ability to grow. The responsibility rests with HR to create practices for hiring, training, evaluating, and rewarding employees based on growth, and to adopt programs and a culture that encourages growth. This requires courage, because in many cases companies will not see the importance of organic growth and will resist growth for various reasons, such as believing erroneously that their market is too mature.

Context

Ram Charan, a renowned author and consultant who has coached some of the world’s most successful CEOs, gave his thoughts on how HR plays a key role in executing profitable growth.

Key Learnings

1. To succeed, companies need organic growth that is profitable and sustainable. You have to grow or you will die; companies that are not growing are going backwards. Organic growth (which does not include growth from acquisitions) is necessary to attract and keep the best talent. Companies sometimes overlook that growth for growth’s sake – such as the airlines’ efforts to grow traffic and the expansion of the wireless communications industry, neither of which repaid the cost of capital – is not enough. Growth must be profitable, sustainable, and help differentiate the company. In addition, growth goals should be reasonable. If an industry is growing 2% per year, then growing 10% is probably unrealistic and growing 3% might be excellent.

Not growing and claiming, “We are in a mature industry,” is unacceptable. Achieving growth requires creativity in defining the market differently or finding untapped segments, new channels, or new products. There are numerous stories of companies that achieved growth in markets seen as “mature.”

“Forget about pie-in-the-sky numbers. For some industries, 1% growth can be fabulous.” — Ram Charan

2. Companies need to be “fit for growth,” a responsibility that belongs to HR. Achieving growth in highly competitive industries doesn’t happen by accident; it occurs by creating a focused organization with the right culture and capabilities that is primed to grow. In addition to intellectual honesty, courage, and aggressiveness, a company that is fit for growth has six important qualities:

1. Culture: A company’s culture conveys its attitude toward growth. Some companies have a culture of cost cutting, and others of acquisitions. Successful growth companies have a culture focused on driving growth.

2. Experimentation: Growth requires a willingness to experiment and to explore new ideas and markets. Organizations that experiment are usually not risk averse; experimentation may result in failure, but the key is to learn from failure.

3. Marketing skills: This is an often-overlooked part of the growth equation that many companies are lacking. Some companies are skilled at downstream marketing, such as advertising, brand building, discounting, and pricing. But, to achieve growth, the HR department must build an organization that excels at upstream marketing, such as developing consumer insights and segmenting the market to find customer groups with unmet needs, creating a compelling value proposition, and forging a linkage to product development.

4. Growth leaders: The right workforce is the linchpin of a growth strategy. To achieve organic growth, companies must identify and hire leaders with an orientation toward growth.
5. **Rewards growth**: HR executives pushing for growth should see that employees are recognized and rewarded for accomplishment of growth metrics.

6. ** Discipline**: Growth organizations keep growth front and center by having the discipline to focus on growth day in and day out; growth is discussed in every key meeting.

Being fit for growth entails having a set of attitudes and practices that the HR department must have the courage to champion in both direct and subtle ways.

**Growth organizations use a portfolio of tools.**

Organizations that pursue growth strategies apply some or all of the following tools and techniques:

- **Expand the pond**: This means changing the definition of one’s category or market. For example, Coca-Cola has 50% of the soft drink category, with Pepsi being the key competitor. However, if the pond is expanded to include all beverages, then Coke’s market share is just 10% and water is the key competitor. Looking at the market differently shows that there is more potential and redefines the competitive challenges.

- **Segmentation**: By doing the hard work of sophisticated segmentation, new segments can be identified. An example was provided of how Coke segmented the U.S. by city and even by neighborhood to find untapped opportunities. However, believing that segmentation is just analyzing numbers is a fallacy; it requires creativity to see the market differently and to group consumers in new ways based on behaviors that were previously undiscovered.

- **Demand chain**: This tool identifies the steps in the process of creating a product and moving it through the distribution and retailing channels to the end consumer. By understanding the demand chain for a given product or customer group, companies can reach new customers and increase profitability.

- **Revenue productivity and pricing**: Analysis shows that on average a 1% price increase produces an 8% increase in profit. Pricing is usually not as simple as thought based on discounts, promotions, and other terms that decrease the net price. Deep understanding of pricing can result in finding ways to increase prices that significantly increase profits.

**Generating growth is primarily about execution.**

Strategies (the “what”) are important and necessary, but execution (the “how”) is “the discipline of getting things done.” Execution is the key differentiator between companies with similar strategies. Too often, managers and HR professionals neglect to emphasize the “how.”

“**Strategy is easy; making it happen is the hard part.”**

— Ram Charan

Executing entails creating a disciplined daily culture that is focused on execution and where managers are evaluated and compensated based on their ability to execute and generate growth. Execution is a habit of meeting your commitments and following through.
HR Leadership: The New Paradigm

**Patrick Wright**, Ph.D. is professor of human resource studies and director of the Center for Advanced Human Resource Studies (CAHRS) in the School of Industrial and Labor Relations at Cornell University. Pat teaches, conducts research, and consults in the area of strategic human resource management, particularly focusing on how firms use people as a source of competitive advantage. He has published over 40 research articles and co-authored two HR textbooks. He serves on a number of editorial boards including *Human Resource Management Journal*, and *Human Resource Planning*. Pat also serves as a board member for HRPS, SHRM Foundation and World at Work.

The Changing Nature of the Board: A Conversation with Ram Charan

**Ram Charan** is a highly acclaimed business advisor, speaker and author. Ram has coached some of the world’s most successful CEO’s and is known for his practical, real-world perspective. Ram’s expertise includes corporate governance, global matrix organization and execution. He has authored or co-authored a number of highly regarded books including *Execution: The Discipline of Getting Things Done*, *Boards at Work: How Corporate Boards Create Competitive Advantage* and most recently *Profitable Growth Is Everyone's Business: 10 Tools You Can Use Monday Morning*.

**Barbara Neisendorf** (Moderator) is the president of Neisendorf & Associates, a strategic human resources consulting firm. Neisendorf & Associates provides risk management and consulting services to give boards and management assurance that they have in place ethical and responsible leaders who will guide their companies to “responsible commercial success”. Before founding her firm, Ms. Neisendorf served as vice president of worldwide learning and development for two global companies - Levi Strauss & Co. and MasterCard International. She has also held senior leadership positions with Accenture and Nestle, USA.

Framing the Issues

**Michael Boro** has been a partner at PricewaterhouseCoopers, LLP, since 1999. Mike has specialized in operational compliance reviews for benefit plans and has completed reviews for numerous Fortune 100 clients. He is an attorney and previously worked with Milbank, Tweed, Hadley & McCloy. Based in PwC’s New York office, Mike is the human resource services coordinator for HR-related Sarbanes Oxley Controls reviews. He has more than 15 years experience in evaluating and improving HR strategies, and mitigating legal risks.

**Carrie Duarte** is an actuary and HR specialist with PricewaterhouseCoopers, LLP. She has over 10 years experience providing advice to her clients on optimizing the financial, operational, and compliance aspects of their benefit programs. She advises many public companies, including several Fortune 500 companies, on becoming compliant with sections 404 and 302 of the Sarbanes Oxley act from an HR perspective. She co-developed a methodology used to document and test the compensation and benefit plan internal controls for purposes of complying with Sections 404 and 302 of the Sarbanes Oxley Act.

HR Leadership at the Board Level

**Susan Bowick** is the recently retired executive vice president of human resources and workforce development at Hewlett-Packard Company. She served on HP’s executive council, and she played a leading role in the merger integration between HP and Compaq Computer Corp. She provided leadership to the spinoff of Agilent Technologies in 1999 and was active in many of HP’s major acquisitions. Susan has served on various nonprofit and HP subsidiary boards.

**Dr. Homa Bahrami** (Moderator) is an international educator, speaker, and author, specializing in global knowledge workers and knowledge-based enterprises. She is a Senior Lecturer at the Haas School of Business, University of California, Berkeley, and a director of Pedagogy, Inc., an executive education and executive development company, in Menlo Park, California.
The Big Picture: Perspectives on Governance

Susan J. Cook is vice president, human resources at Eaton Corporation, a global $8 billion diversified industrial manufacturer. She has 30 years of experience as an executive and human resource practitioner, and has worked in senior positions at IBM and Tandem Computer Corporation. Sue has been involved with the Labor Policy Association for over 10 years and currently serves on its board of directors. She is also on the board at the Center for Advanced Human Resource Studies at Cornell University.

Phil Johnston manages the San Francisco office of Spencer Stuart. He joined the firm in 1998 and currently co-leads the firm’s Strategic Leadership Services for North America. Phil has completed more than 200 executive searches and routinely places candidates in board, CEO, president/COO and other senior positions. In the past, Phil served as the top human resource executive for two companies that were acquired by Lucent: Mosaix and Octel Communications. He sits on the board of the San Francisco East Bay Wellness Community and is a past member of the Discovery Toys board of directors.

Barbara Neisendorf (See above).

Edward E. Lawler III (Moderator) is distinguished professor of business, and director of the Center for Effective Organizations in the Marshall School of Business at the University of Southern California. He has consulted with over one hundred organizations on employee involvement, organizational change, and compensation and has been honored as a top contributor to the fields of organizational development, organizational behavior and compensation. The author of over 300 articles and 35 books, his articles have appeared in leading academic journals as well as Fortune, Harvard Business Review and leading newspapers.

HR Leadership at the Board Level: Identifying the Opportunities

Bruce Carswell retired from GTE in 1995, after 37 years of service, as senior vice president of human resources. He is currently a principal in the Cabot Advisory Group, an HR consulting firm. At GTE, Bruce was a member of the senior management team and reported directly to the CEO. He was deeply involved in the strategies and management of GTE and was a member of the Board of Directors. He is a Distinguished Fellow of the National Academy of Human Resources (NAHR) and he is past chairman of the Cornell Advanced Human Resources Studies (CAHRS) Advisory Council.

Richard Hallock is executive vice president of Occidental Petroleum Corporation, where he has corporate worldwide responsibilities for human resources, administration, security, and real estate for a $10 billion (revenue) oil and gas, and chemical company. Prior to joining Occidental, he spent 27 years with IBM Corporation. Dick is a Fellow of the National Academy of Human Resources, and served two terms as president of the Institute of International Human Resources. He currently serves on several boards, including non-profit community organizations, a business school, a foundation, and a museum.

Laurence G. O’Neil is senior vice president, human resources, of Kaiser Foundation Health Plan, Inc. and Kaiser Foundation Hospitals. Prior to joining Kaiser Permanente, O’Neil worked at Heidrick & Struggles as managing partner of the Northern California Region. Previously, O’Neil had a career spanning more than 20 years with Bank of America, where he held various management positions in the U.S. and Asia. O’Neil is a past president of the board of The Friends of Langley Porter (University of California San Francisco Department of Psychiatry).

Dr. Homa Bahrami (Moderator) (See above).

Where We Go From Here: Facilitated Discussion

Susan Bowick (See above).

Bruce Carswell (See above).

Susan J. Cook (See above).

Richard Hallock (See above).

Laurence G. O’Neil (See above).

Dr. Homa Bahrami (Moderator) (See above).