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Harnessing Human Capital to Achieve Big-Picture Goals

By Dr. Matt Brubaker

Dr. Matt Brubaker is CEO of human capital advisory firm FMG Leading. He is an expert in sustainable transformation, and his client work focuses on enterprisewide change initiatives, C-level development, and building high-performing, strategically aligned executive teams. This article aims to help boards greenlight, suggest, and/or advance thoughtful human capital plans poised to generate sustainable, long-term performance and measurable return on investment.

Boards of directors hold governance responsibility over myriad aspects of the organizations they oversee. While many who serve in these roles are practiced in such areas as finance and operations, few bring expertise in human capital strategy—an area increasingly recognized for its ability to help unlock value and achieve overarching goals. This gap makes it difficult for boards to differentiate initiatives devised in response to trendy, novelty concepts and those rooted in substance and strategy.

Human capital strategy is best characterized as an integrated plan—designed, executed, measured and refined as needed—to ensure an organization's human core is prepared to effectively and efficiently achieve its big-picture goals. It's rooted in the idea that the people systems in an organization can be tuned to facilitate alignment of goals, high engagement, and retention of key talent. Most organizations already deploy significant effort to issues of employee training, motivation, compensation, communication, etc. A human capital strategy integrates these tactics into a plan designed to drive enterprise strategy and can yield tremendous, tangible results.

With growing numbers of leaders testifying to the power of such initiatives to spur growth, even in challenging business environments, people-centric thinking has become increasingly trendy, with many organizations clamoring to put in place their own programs to ensure they're not outperformed by competition. Still others have been resistant to human capital spend, skeptical of this relatively new, touchy-feely business focus and the enthusiasm surrounding it.

Like all areas worthy of investment, human capital efforts can be undertaken judiciously or inadequately. Harnessing the true power of these investments and thus generating return on investment (ROI) requires deliberate and thoughtful planning rooted in best practice versus novelty and misunderstanding. Boards can play a significant role ensuring their organizations come out on the right side

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Goals

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of this equation by understanding the central factors that lead to success.

Aligning With Growth Strategy

The core component of an effective human capital strategy is its alignment with an organization's central business strategy, and thus its ability to empower its human core to work in lockstep to support the focus areas most likely to spur real momentum. For example, health care delivery companies that rely on referrals from certain kinds of physicians would be wise to consider how to best engage and support employees that interface with the doctors, inspiring their trust. Similarly, hospitality companies at the mercy of online customer reviews yield returns from investment in training for staff members that work most closely with their guests.

To best achieve strategic alignment, board members should take it upon themselves to question the thinking behind proposed human capital initiatives, from leadership training to recruitment and compensation planning, ensuring they're not just "nice ideas" but positively linked to identified drivers of organizational success. With an ear tuned to such issues, they can identify projects that might benefit from minor to significant adjustment. For example, an HR presentation might reveal planned training and development exercises for those most senior, ignoring crucial new hires poised to lead the organization into its next chapter.

Board members might also spot opportunities in which planning tied to human capital makes clear sense but is all but completely absent. For example, they might learn from the CEO about strategy adjustments that fail to consider core people implications, exposing gaps, limitations, and vulnerabilities. In these situations, board members can ensure organizations don't proceed unwisely—risking scenarios ranging from opportunity loss to outright failure.

Leading From the Top Down

Historically, all responsibilities related to the people issues of an organization have been delegated to the human resources department, thus siloed and separated from the leaders and discussions that set overarching priorities, identify central challenges, and propose strategies for success. Then and now, this arrangement makes it near-impossible to elevate human capital planning such that it's strategically aligned with big-picture strategy.

Focusing on human capital in a way that is holistic, and thus effective, requires a more top-down approach. Specifically, an organization's chief executive should be seen as the sponsor and assume responsibility for strategic efforts tied to people and culture, with key support from an empowered and expert chief human resources officer (CHRO).

Boards can drive major improvements through human capital by simply recommending or sanctioning this CEO-led model. It best ensures initiatives aren't proposed and executed in a vacuum but integrate with big-picture strategies for growth; prevents critical human-related issues from being lost amidst other priorities; and sends a clear, positive message about how organizations value people and recognizes their potential.

This shift of sponsorship from HR to CEO is reminiscent of how organizations have rethought best practices concerning strategies related to technology. The early days of personal computing and e-commerce brought awareness of the need for IT departments, investment in expertise, and, ultimately, chief technology officers with real budget and influence. But crises ranging from cybersecurity attacks to technology-related disruption have made it best practice for organizations to include issues of technology as a priority for its most senior leadership team.

Measuring by Impact Not Dollars

Evangelists of people-focused programs often push for the greatest possible human capital spend for the largest number of individuals—a testament to their passion for these projects and a strong belief in what they can achieve. Those new to this kind of thinking often become similarly bold with their budgets as a means of overcompensating as they learn about the issues—in effect, throwing money at what they consider a problem, hoping it will lead to a solution.

The savviest human capital strategists carefully consider the anticipated ROI of such plans and determine investments accordingly. They are interested in impact, not dollars, as the tool of human capital measurement, and push back on projects that don't align with an organization's big-picture goals. In other words, they understand blind adoption of initiatives, even so-called "best practices," doesn't lead to success simply because they worked somewhere else.

Board members can be similarly savvy by serving as a check on overenthusiastic human capital spending, not assuming more is more. For example, they can question the returned value on investments in fully automated talent and performance management toolkits, embedded in most enterprise resource plans. In many cases, the value proposed by these massive expenditures is linked to the reduction in manual paperwork processes for managers. Savvy board members would dig deeper into the motivation for and impact of such tools before simply signing off.

Focusing on concepts central to effective human capital strategy—aligning with big-picture goals, elevating planning to the CEO level, and measuring for impact, not dollars—can go a long way toward helping board members serve as powerful, judicious supporters of people-focused programs. That said, pitfalls can still deter their efforts and the organization's best-laid human capital plans.

The most common human capital pitfalls include:

- *Blind spots to organizational realities.* Board members are usually far removed from the day-to-day realities of the organizations they oversee. Interactions with them are anticipated, rehearsed, and polished, making it hard to spot dysfunction. They're thus likely to see the organization through rose-tinted glasses, presuming management is working together effectively, even when people-related problems are negatively impacting the organization's progress or potential. They're especially unable to spot such problems when they involve the board itself.

This miscalculation is all too common. To illustrate, consulting and technology firm Accordion recently publicized survey results showing highly incongruent views between private equity firm-level executives and accompanying portfolio company finance chiefs. Its data showed that out of such 200 leadership pairs polled, 92% of board-level executives expressed confidence that they were living up to the expectations of their CFOs. Only 29% of the CFOs agreed.[1]

- *Overreliance on compensation.* Even leaders who believe in human capital investment sometimes minimize its importance, assuming financial compensation that aligns investors and management is enough to motivate people to get the job done. This assumption ignores the reality that even the most motivated C-suite leaders can, and often do, work at cross purposes or demonstrate resistance to board-issued mandates. It also flies in the face of growing research that shows money is not the reliable motivator once presumed. A meta-analysis of academic studies on this subject, published in *Harvard Business Review*, makes this painstakingly clear, saying outright "if we want an engaged workforce, money is clearly not the answer."[2]

Human capital strategies must always include a strong focus on compensation, but also other equally powerful motivators. For example, organizations that forge a deep sense of belonging through their mission and culture enjoy high levels of employee engagement, productivity and loyalty.

- *Undervaluing those outside the management-leadership chain.* Top business leaders understand the value and contributions of other top business leaders—as well as the people they lean on for support—but often miss key roles played by others. These "invisible" employee populations can go overlooked and undervalued at the expense of the organization. An article in Harvard Business Review offers helpful categories for such individuals: essential experts, customer experience creators, and critical contractors.[3] These team members might not aspire to management or demand high salaries, but their work can be indispensable.

It is unreasonable to expect board members to be able to identify invisible employees, but they should expect this of management and, if necessary, question and prompt leaders to include such individuals in human capital planning.

- *Equating mere tools with strategic investments.* Quick fixes like automation of core HR processes can generate tremendous enthusiasm among management and result in requests to boards for budget to adopt these often-pricey tools. This is understandable given heavy meeting schedules, reporting demands, and other important responsibilities. Yet investing in such fixes doesn't usually lead to real solutions, as they don't address the heart of fundamental problems. Tools themselves can even add to employees' burdens, duplicate processes, and go underutilized.

Board members fielding such requests as easy solutions to complex problems can dig deeper to explore root causes. For example, they might reveal a workplace culture that makes it difficult to delegate responsibility. If top management is expected to attend every meeting and be cc'ed on every email, it's no wonder they're looking for any means of reducing their workload. New software isn't going to address this problem. Instead, organizations must do the more difficult work of changing their culture.

To recap, the best way for board members to ensure their organizations navigate common human capital pitfalls effectively is by:

- Requesting that the most senior management, not just HR, take ownership of a thoughtful, integrated human capital plan.
- Confirming that a meaningful business case be made for human capital investments. Saving time is not enough.
- Conveying skepticism of best practice adoption for its own sake.
- Identifying and prioritizing people-centric fundamentals underlying real opportunities (i.e., culture, change agility, and management excellence).
- Recognizing both visible and invisible employee populations in the organization's value-creation chain.
- Successfully distinguishing spending from impact, and tools from strategy.

Human capital strategy done well can yield momentous impact for organizations of all types and sizes. It isn't dependent on outside factors like the talent market or economic outlook, but reflects the understanding, dedication, and savvy of those, like boards, with the greatest enterprisewide responsibilities. ❑

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