

## How Boards are Changing the HR Game



To seize new opportunities for sustainable growth and manage heightened risks, boards of directors at high-performing organizations are pulling CHROs much deeper into business strategy – and far earlier in the process.

Up until recently, the main talent discussion in most boardrooms centered on CEO succession and setting compensation for the most senior executives. Now boards are changing the game – focusing on the role and impact of talent on business performance and risk. As a result of this new focus, boards are pulling Chief HR Officers (CHROs) more deeply into challenges involving strategy, execution, and regulatory adherence.

Today, boards increasingly understand that talent is critical to executing an organization's business strategy and achieving sustainable growth. They know that developing strategy without considering the talent dimension creates risk in their business plans. In fact, in a global marketplace where both opportunities and risks have multiplied, boards are recognizing that business strategy often is talent strategy.

The question for CHROs: How will you respond to this pull from the board and are you ready to align HR and talent issues and opportunities with your organization's strategic priorities?



### What's driving this trend?

**Rising expectations of the board.** As organizations become more global and as the operating environment grows more complex, the role the board plays in talent oversight is becoming more critical. In a recent Public Company Governance Survey conducted by the National Association of Corporate Directors, executive talent management and leadership development was ranked as one of the board's top five priorities, ahead of CEO succession.<sup>1</sup> Without the right people to execute an organization's strategy and deliver on its objectives at all levels, the organization will never reach its full potential.

**Increasing responsibility for managing regulatory and compliance risk.** Talent is a core component of a company's risk profile, including reputational risk, operational risk, regulatory risk, and financial risk. As the board's oversight responsibilities for risk-management increase, boards are working proactively with CHROs to ensure organizations have the infrastructure and programs in place to minimize talent-related risks. Compensation structures, for example, can create unintended consequences that can make talent a risk itself. A compensation system that appears to be a motivator may actually incentivize bad behavior in exchange for meeting performance targets.

**Achieving sustainable growth.** High-performing boards are asking CHROs whether their organizations have the talent in place to deliver sustainable performance and execute the business strategy. Therefore, it's no surprise that the ability to attract, develop and retain talent has become a major factor in all capital investment decisions, business strategic planning, and organizational growth initiatives.

### Practical implications

As a result of this trend, talent issues are becoming a standing item on board agendas. The role and responsibilities of CHROs are shifting; in leading organizations, CHROs now participate on board committees and meet with the entire board to discuss talent risks and ensure the organization has the talent it needs to deliver on its performance goals. Boards are extending their purview to include stress testing succession planning and culture. CHROs and business leaders are forging a new alliance to develop and execute business strategy at all levels – from helping design operating models to evaluating potential new markets for international expansion.

For example, one leading international financial services company addressed this challenge by requiring talent input on every major business strategy as part of the board's strategic review. Talent issues are now integral to key decisions regarding which new markets to enter and what operating models would be most effective given the organization's talent strengths.

At a major manufacturer where globalization was the top priority, the board took a different path. Two board members, the CEO and the CHRO were named to a special strategic committee and given the responsibility to manage major decisions – from selecting the best markets for global expansion and determining the right mix of manufacturing, sales, and hiring in those markets, to building robust in-country talent pipelines and creating a global corporate culture that is transferrable to every market.

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### Lessons from the front lines

A board's oversight responsibility is well defined when it comes to risk governance, ethics, and corporate responsibility, but less often understood with regard to talent. To assist boards in broadening their talent oversight efforts, Deloitte has identified several important actions boards are taking to address the need for greater oversight, strategic review and planning support:

**Maintain the right talent oversight.** Boards need directors who are independent of management, who have more time to devote to board service, and have specialized expertise in risk, global trends, and talent. In fact, having a deep knowledge of talent is as critical for a board as having proficiency in finance and business operations. High-performing boards are also seeking out external assessment of their effectiveness, talent requirements and strategies for improving performance.

**Increase accountability for talent.** Faced with increased public scrutiny and greater stakeholder expectations, boards are providing greater oversight when it comes to talent strategy and giving greater visibility to talent risks.

**Require proactive strategies.** Boards are looking to CHROs to work with business leaders to develop talent strategies to effectively manage reputational risk, crisis management (Black Swan events), business and regulatory risk.

**Build global leadership pipeline:** According to research, only 19 percent of organizations have a program in place to develop high-potential employees.<sup>2</sup> Boards should expect CEOs and CHROs to have a talent plan and forecast developed by business area needs and an awareness of upcoming leadership shortages.

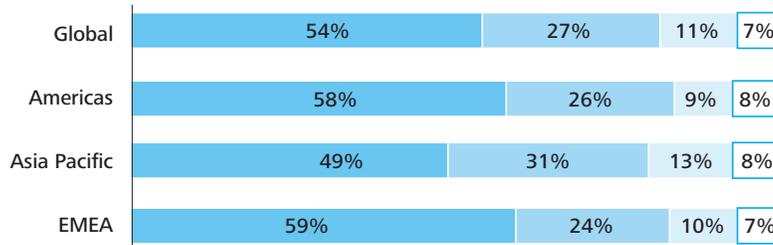
### Key questions boards should be asking... and CHROs should be prepared to answer

- Do we have the talent and leadership we need to execute our business strategy?
- Do we have the talent strategies and leadership we need to manage risk and drive sustainable growth?
- Are we developing the talent we need as we grow into new markets?
- How do we ensure that our organization's culture translates across international boundaries?
- Do we have the processes in place to review major talent issues on a quarterly basis?



## How Boards are Changing the HR Game: Survey highlights

### Relevance by region



- Trend is highly relevant today
- Trend will be relevant in the next 1-3 years
- Trend will likely be relevant in 3 years and beyond
- Not applicable

Region	Total
Americas	315
Asia Pacific	582
EMEA	412
<b>Total</b>	<b>1309</b>

### Digging deeper

- 59% of surveyed HR professionals report this trend as highly relevant today, higher than other business executives (50%)
- 64% of respondents from Energy & Resources and 60% from Financial Services industries rank this trend as second most relevant trend today, after *War to Develop Talent*
- Organizations with a strong business outlook for 2013 rank this trend as the second most relevant trend today at 61%, higher than the organizations with moderate to much slower outlook for 2013 (53%)

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### Endnotes

<sup>1</sup> "2011 NACD Public Company Governance Survey," *NACD Directorship*, December 2011.

<sup>2</sup> "The Art and Science of Building a High-Potential Strategy: Key practices to maximize the performance of top talent," Deloitte by Bersin / Laci Loew, December 2011.

**Resetting horizons: Global human capital trends 2013**

Looking beyond continued uncertainty, the world's leading organizations are raising their sights, and pivoting from the great recession to the new horizons of 2020 with a focus on talent, globalization, growth, and innovation. This report introduces 13 global trends that are driving critical business and human capital decisions. The report provides information on these trends across global markets through results of a survey of over 1,300 business and HR professionals from 59 countries. [www.deloitte.com/hctrends2013](http://www.deloitte.com/hctrends2013)

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