

Center for **Executive Succession**

2018
HR@MOORE
Survey of Chief HR Officers



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The CHRO and the Board:

Results of the 2018 HR@Moore Survey of Chief HR Officers

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EXECUTIVE SUMMARY

Boards of Directors (BOD) are increasingly focusing attention on aspects of human capital, leading to increasing CHRO - BOD interactions. The results of the 2018 HR@Moore Survey of CHROs indicates that the bulk of CHRO interactions with the BOD continue to focus on executive compensation and CEO/executive succession. This shows up in answer to questions regarding the time spent with the board, where CHROs coach the board, and where the board leverages the CHRO. When asked for areas where the board fails to effectively leverage the CHRO, the most frequent response was none, but a few CHROs indicated they could be better leveraged around CEO performance, engagement/culture, and board succession.

Forty percent of CHROs reported that they are not involved in board succession, but of the 60% who are involved, the most frequent way they are involved is in helping the board build the skill/experience specifications for new board members.

Not surprisingly, all CHROs reported that they attend the Compensation committee meetings, and most met with this committee 4-6 times per year. In addition, a number of CHROs also meet with the Nominating and Governance committee, but generally less frequently than with the Compensation committee.

CHROs report that CEOs engage in relatively healthy decision making processes, but then also describe how they help to facilitate this. CHROs work to ensure that CEOs have all the relevant information in front of them, try to make sure CEOs hear the viewpoints of the right people, and help them to recognize unintended consequences of their decisions, particularly on stakeholders such as employees and customers.

Most CHROs presented to the BOD between 4 and 6 times per year, with 1 or 2 of them being presentations on CEO succession. CHROs also meet with BOD members individually, and in small groups outside of the board room, but seldom without the CEO present.

OVERVIEW

With every round of corporate scandals, Boards of Directors (BOD's) seemingly take on new roles with regard to the governance of the corporation. Some of the accounting scandals at companies like Enron and Tyco focused BOD's on recognizing the potential for certain executive pay designs to encourage CEOs to misreport aspects of their accounting numbers. High visibility failures of CEOs at companies such as HP drove BOD's attention toward their need to exhibit more due diligence in CEO succession. The collapse of the financial industry, driving the "Great Recession" of 2007-09, increasingly drew their attention both to risk and to those leaders who might have positioned their firms with risky portfolios.

These developments have brought boards into the realm of human capital management. CEO pay, CEO succession, and the war for talent have moved to the top of the board agenda, and consequently, increased the visibility and importance of the Chief HR Officer (CHRO) to the board. This report, based on the HR@Moore Survey responses of 131 CHROs, reports the current state of how CHROs interface with the BOD.

*This research was supported by the Center for Executive Succession, Darla Moore School of Business, University of South Carolina.
Any errors or omissions, however, are solely the responsibility of the authors.*

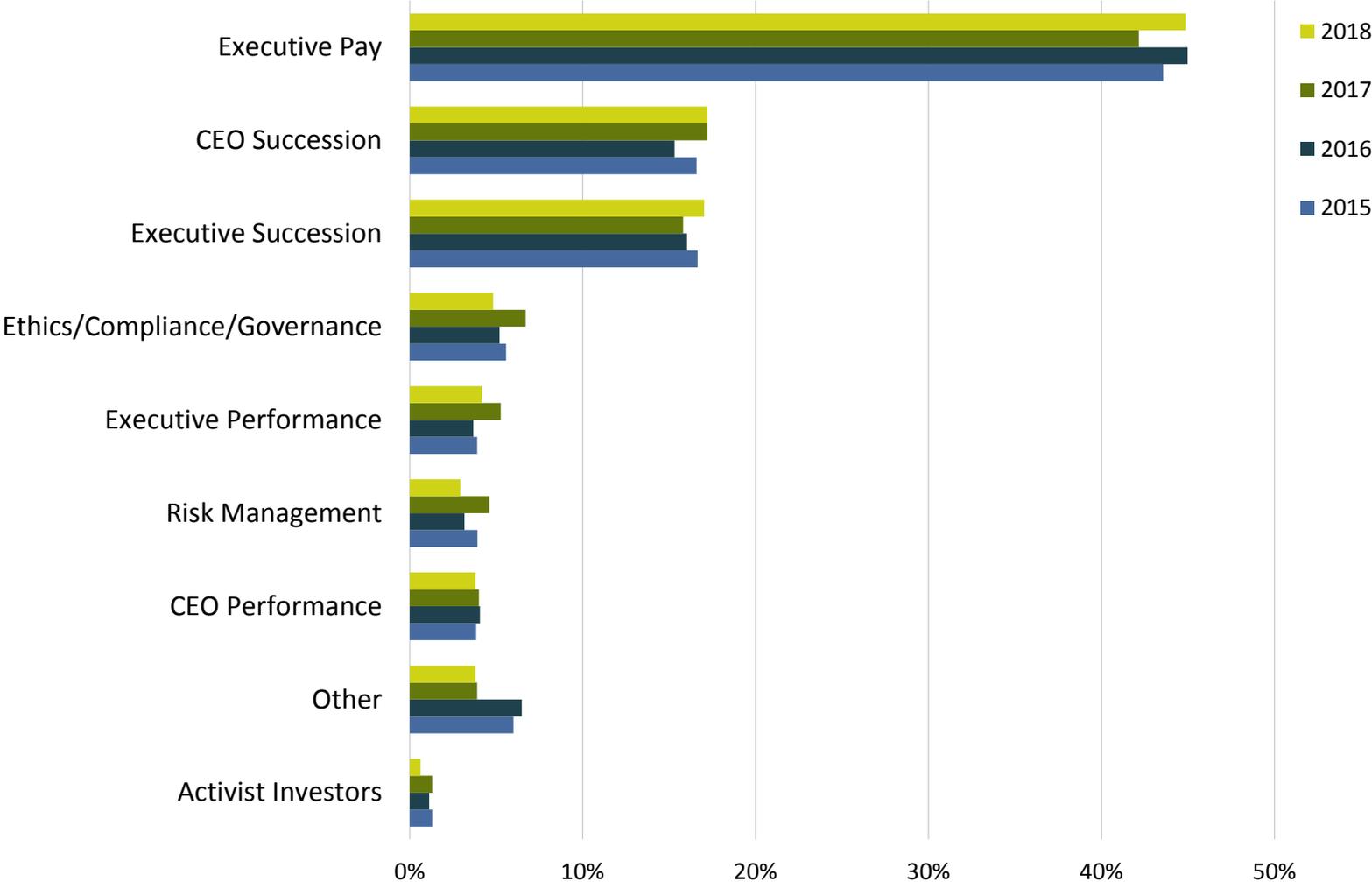
TIME SPENT WITH THE BOARD

As we have done on past surveys, we asked CHROs to report, of their time spent with the board, how much of that time was devoted to particular topics. When we first began asking the question, considerably above 50% of their time with the board was on the topic of Executive Pay. As can be seen in **Figure 1**, this year, like the past 4 years, that number was below 50%, with this year's CHROs reporting that, on average, as being the topic of 45% of their interaction with the board. Also similar to previous years, the second most time (18%) was spent on

CEO succession, equaled by 18% on other executive succession. Ethics/Compliance/Governance, Executive performance, risk management, and CEO performance each accounted for less than 5% of their time.



Figure 1
 Time Spent on Issues with the Board



COACHING THE BOARD

Because the theme of this year’s survey was around the CHRO’s Counselor/Confidante/Coach role, we also asked CHROs about their role in coaching the board. Of the 61 who responded to this open-ended question, as **Figure 2** shows, the most frequently mentioned area was their role in coaching the board around CEO/Executive pay. This was followed by ELT Talent/Succession, ELT Performance, Talent, and “none” (meaning they do no

coaching of the board). Finally, Talent, CEO succession, board succession, Culture/Climate/Morale, and CEO Performance were mentioned by a number of CHROs as areas where they coach the board. Some examples of the actual responses are provided in **Table 1**.

Figure 2
CHRO Coaching the Board

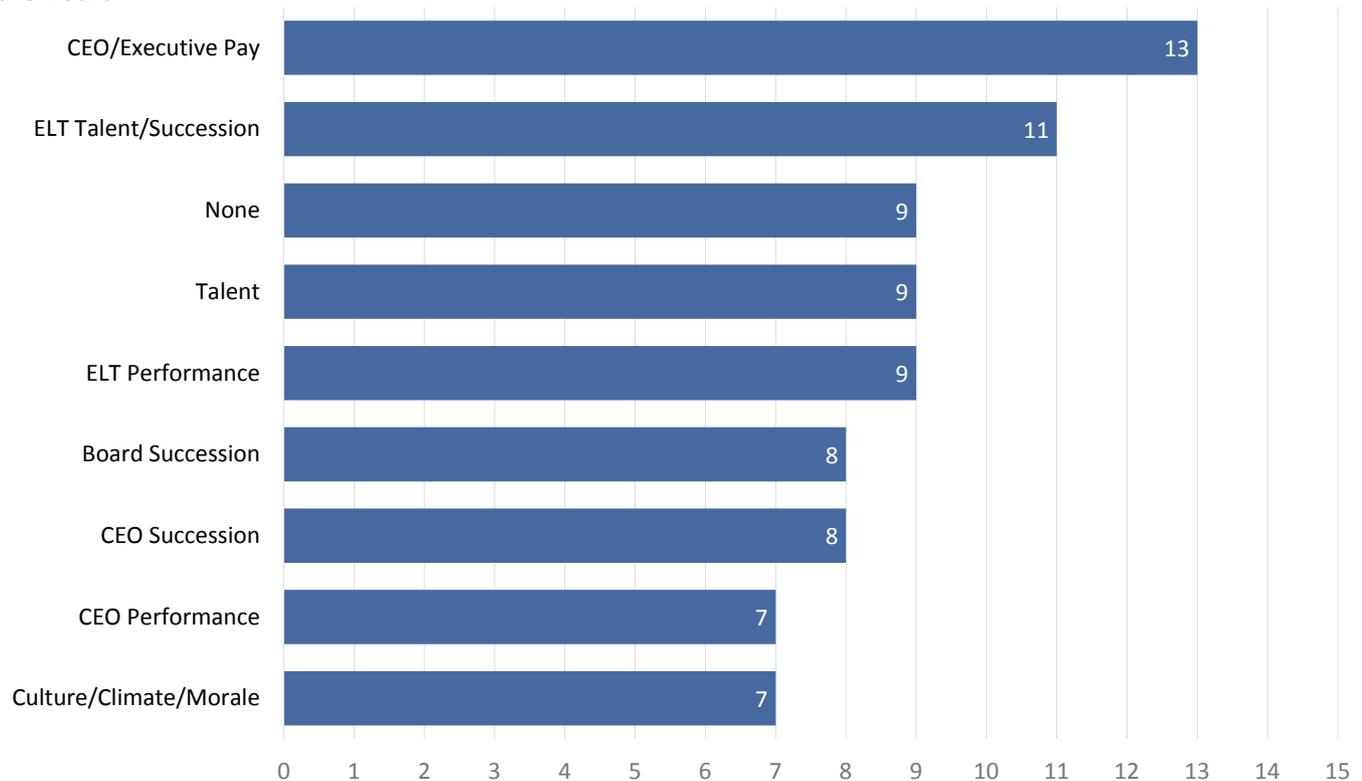


TABLE 1. EXAMPLES OF HOW CHROs COACH AND COUNSEL THE BOARD

- I have played a significant role with the lead director as we move through CEO succession. I have brought him/her the plan and timeline and recommendations, which s/he has accepted in full. S/he has also asked me to review with the full board what our process and plans are and how we will conduct them, with his/her support (in essence telling the board how we will go about this). Consequently, individual board members do ask me questions at the board dinners and at other times about the process and the rationale and so on - in other words asking for my expertise and advice and perspective on aspects of the process, as well as my thoughts on the candidates. I work closely with the chair of the P&C (comp) Committee to give him/her advice and guidance on our CEO's thoughts on the annual bonus as a result of performance, on the CEO's overall perspective on total comp package, on the CEO's thoughts relative to his/her general perspective on the executive leadership team, and other topics such as retirement. That is, the chair of the P&C Committee uses me as a sounding board or to validate his/her own observations about the CEO and the ELT.
- Providing context for cultural and organizational issues; translating our policies and practices to experiences board members have had in other organizations or on other boards; advising on status of programs and initiatives -- providing my view on capability and capacity for initiatives; advising on leadership talent and bench strength.
- Coach Chairman on CEO succession process, Chair selection process, Board recruiting, board pay, plus normal collaborative work with Compensation Committee chair (we hold precalls with Chair before every meeting, and I sometimes do debrief calls with him/her as well) development.
- I facilitate/manage the Director Search process - so lots of coaching and interaction on that topic I do provide input and coaching to both the Committee chairs and Lead Director on Board and Management interactions.



CHRO ROLE IN BOARD SUCCESSION

One theme on this year's survey focused on board composition and succession. We first asked CHROs if they were involved in board successions; if they answered yes, we then asked CHROs about their role in board succession. We received 103 responses to the first question. Of those 103, 60% indicated that they were involved in Board succession; the answers to the remaining questions pertain to these 60% who are involved in BOD succession.

Because this was an open-ended question, CHROs answered using their own nomenclature, which may have varied in terms

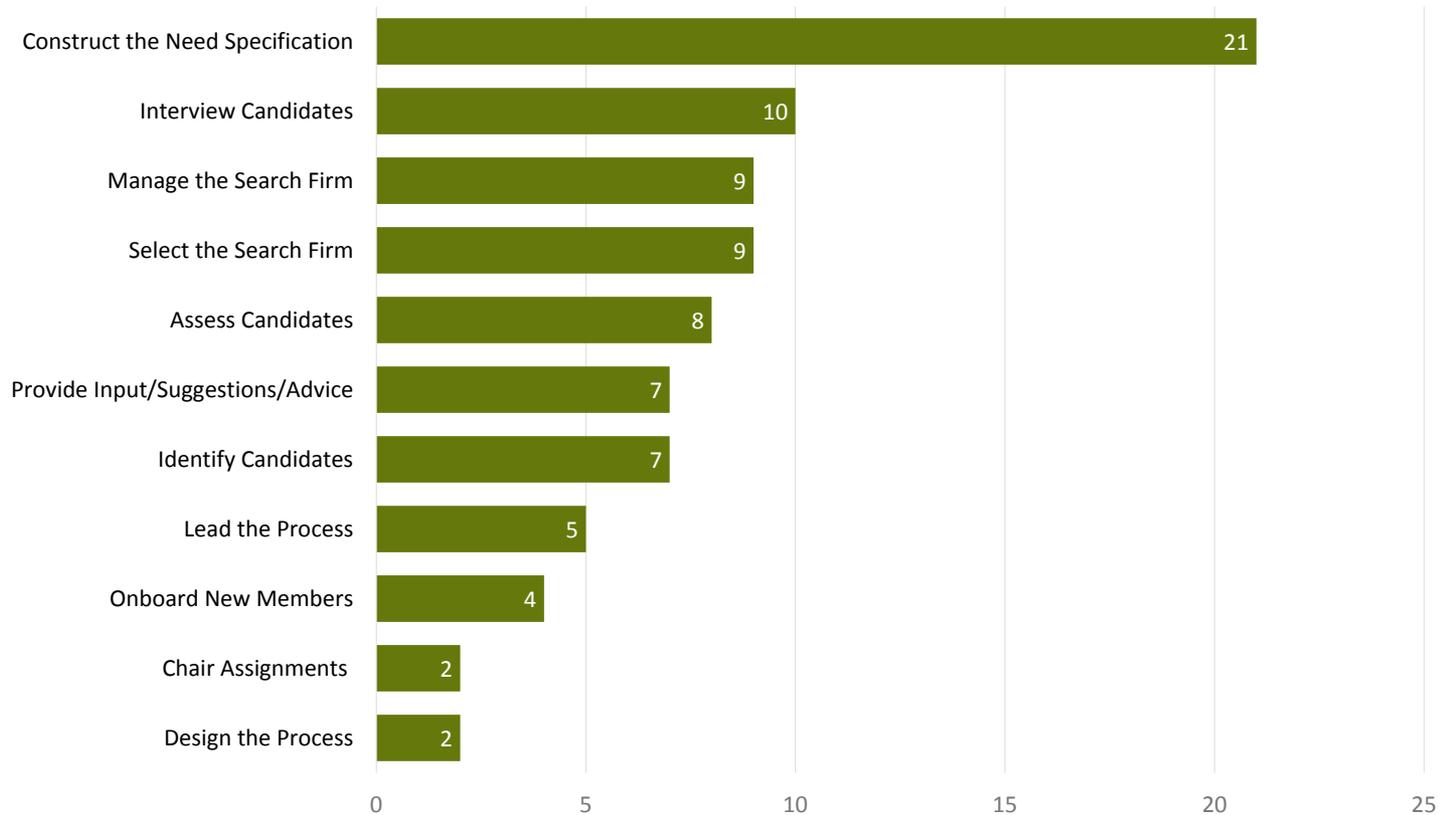
of the ambiguity/specificity of what they actually do. We tried to code the answers into similar categories. **Figure 3** illustrates these results.

The open-ended answers seemed to describe a process that is managed by the triumvirate of the General Counsel, the search firm, and the CHRO. While each may have different responsibilities within the process, the three tend to work together in managing the composition of the board. The board most frequently leverages the CHRO in the process of defining the needs of the next board member in terms

“

...I have proposed that we think more strategically about board succession ...that we think about end markets we want to grow and where we need some expertise on issues like cybersecurity.”

Figure 3
CHRO Role in Board Succession



of skills, experiences, background, etc. Given that this talent specification is a central responsibility within HR, this is not surprising. Second, 10 CHROs indicated that they are involved in interviewing potential board candidates. This does not imply that they are the only ones, only that they are one of the individuals who conduct the interviews. The third area of responsibility is with regard to the search firm. Nine CHROs

noted that they are involved in the selection of the search firm and an additional 9 that are involved in managing the search firm. In terms of the process, 7 said that they have input/suggestions/advice regarding the process, 5 noted that they lead the process and 2 wrote that they designed the process.

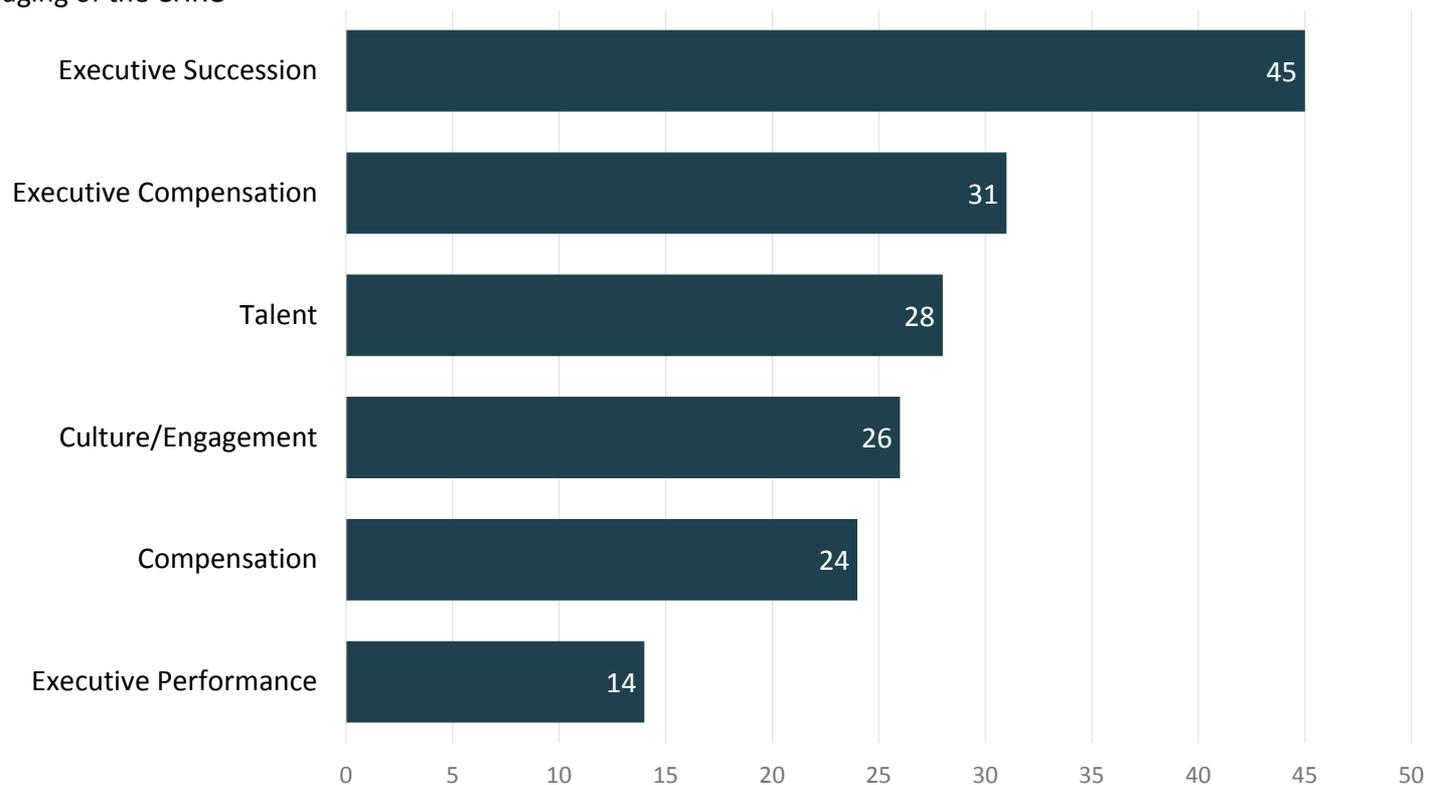
BOARD LEVERAGING THE CHRO

A number of conversations with CHROs revealed that they do not always believe that the board effectively leverages them. In a previous study (“The CHRO’s Role in CEO Succession: A Board Perspective”) a number of board members noted that good CHROs are invaluable partners to the board, but that a number of CHROs do not bring much value. Thus, this year we asked

CHROs to report on how boards effectively leverage the CHRO as well as where they fail to leverage the CHRO.

These results suggest that boards see the CHRO as an effective partner in the areas of talent and compensation. As **Figure 4** shows, by far the greatest number of CHROs (45) mentioned

Figure 4
Board Leveraging of the CHRO

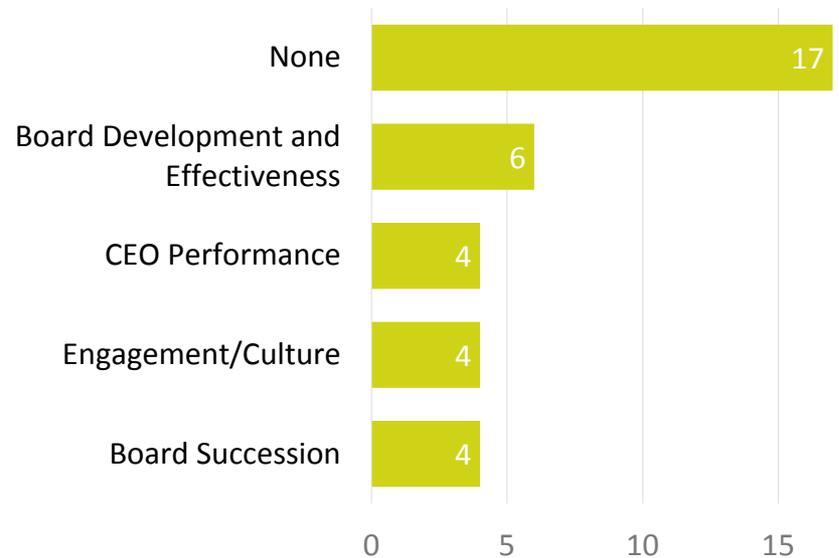


that boards rely on them in the area of executive succession, and a significant number also look to them regarding larger talent issues (28) as well as executive performance (14). Not surprisingly, boards leverage the CHRO in both executive compensation (31) and larger compensation issues (24). And given boards' increased focus on culture, 26 CHROs reported that boards look to them in the area of culture/engagement.

Word Cloud: Board Leveraging the CHRO



Figure 5
Board Failure to Leverage the CHRO



The answers to the question regarding areas where the board fails to leverage CHROs indicate that, on the whole, CHROs feel that the board effectively leverages them. In fact, the largest number of responses indicated “none” meaning that boards are leveraging the CHRO in all the relevant areas. The areas where CHROs do not feel effectively leveraged had very few responses as can be seen in **Figure 5**. The highest area was in the area of board development and effectiveness (6), followed by the areas of Engagement/Culture, CEO Performance, and Board Succession, which each received 4 mentions.

CHROs and BOARD COMMITTEES

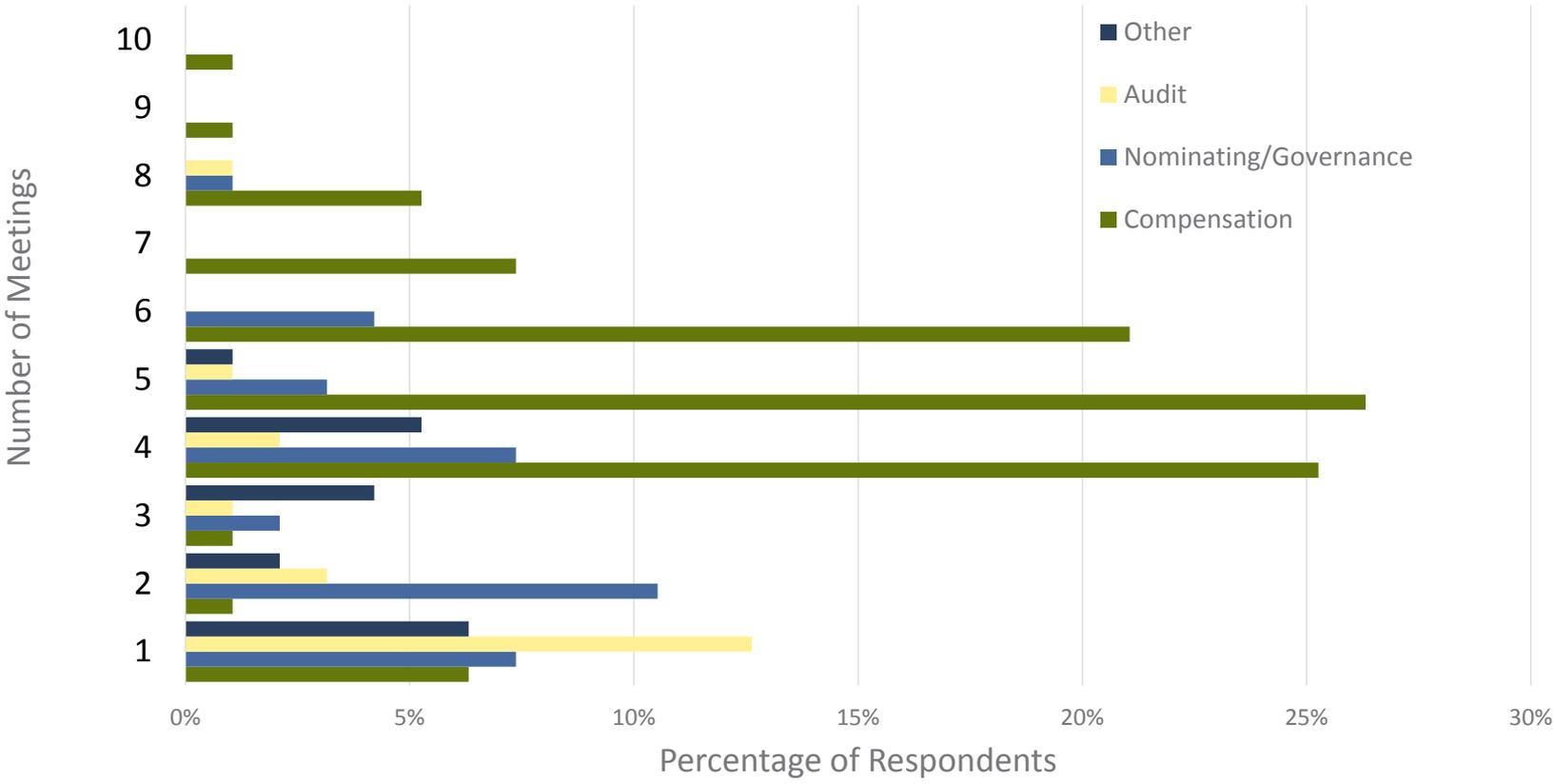
We also sought to assess the CHRO's involvement with board committees, so we asked them which committees they formally meet with and, on average, how many times they meet with them. Of the CHROs who answered, all said that they meet with the compensation committee, but there was variance regarding with which other committees they met.

Figure 6 shows the number of times that CHROs meet with the different committees of the BOD. Not surprisingly, CHROs most frequently meet with the Compensation/Organization

committee, with over 70% meeting with that committee between 4 and 6 times per year. CHROs were second most involved with the Nominating/Governance committee. Approximately 18% met with this committee once or twice a year with a second group of about 15% meeting 4-5 times per year with this committee. A relatively small percentage of CHROs also met with the audit committee, and of those, most met with that committee only once or twice per year.



Figure 6
CHRO Committee Meetings



PRESENTING TO THE BOARD

We asked CHROs two questions about how often they presented to the BOD. The first question dealt with the number of times they formally presented to the board, and the second focused on the number of presentations they did specifically on CEO succession.

Regarding the total number of presentations to the board, as **Figure 7** shows, approximately 75% presented between 2 and 5 times per year. This suggests that CHROs have substantial visibility to the BOD.

Regarding the presentations on CEO succession, the vast majority (approximately 75%) presented to the BOD on CEO succession 1 or 2 times per year as can be seen in **Figure 8**. While some presented more, we suspect that the frequency of presentations increases the closer the board gets to having to make the CEO succession decision. This suggests that the normal process for ongoing CEO succession discussion as part of the board meeting entails discussions once or twice per year.

Figure 7
CHRO Presentations to Board

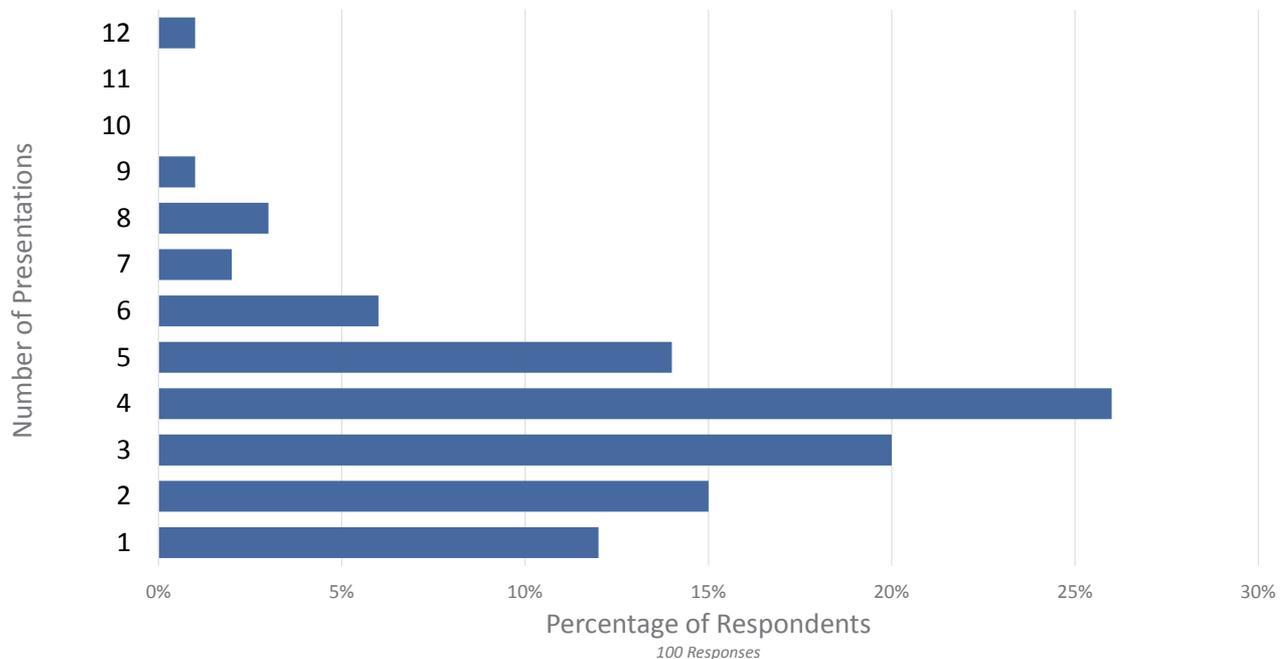
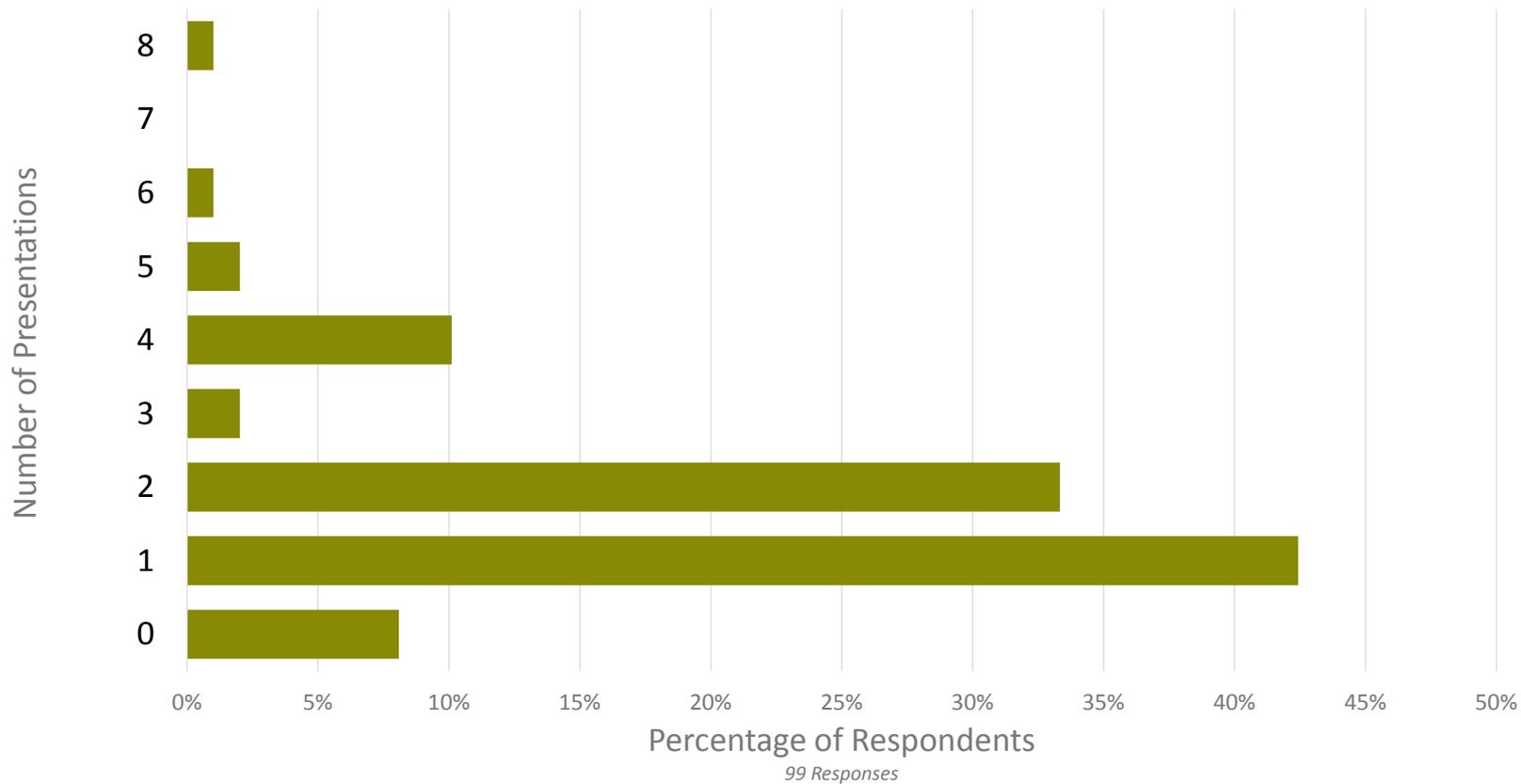


Figure 8
CEO Succession Presentations to Board



Also, some CHROs have asked about how frequently other CHROs meet with board members outside of the normal board meeting. We asked the question regarding how frequently they met with (a) individual board members, (b) small groups of board members, and (c) large groups/full board. These results are displayed in **Figure 9** and show that CHROs frequently meet with individual board members outside of the board

room, with most responses ranging from one to twelve times per year. A significant number of CHROs indicated that they never meet with small groups of board members, but many of the CHROs mentioned that they meet with such groups 2-6 times per year. Finally, the vast majority said they never meet with large groups or the full board during the year, but many reported meeting 1-6 times per year.

Figure 9
CHRO Meetings with the Board Outside of the Board Room

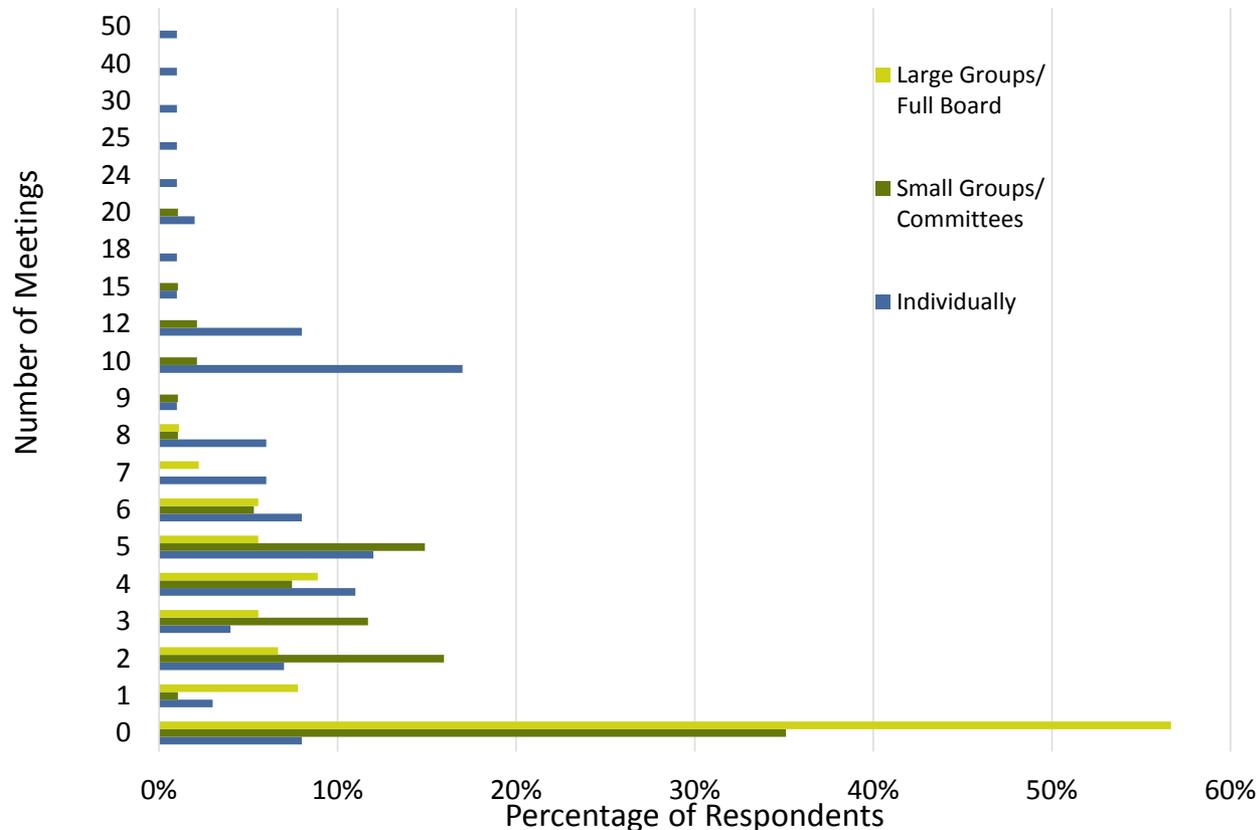
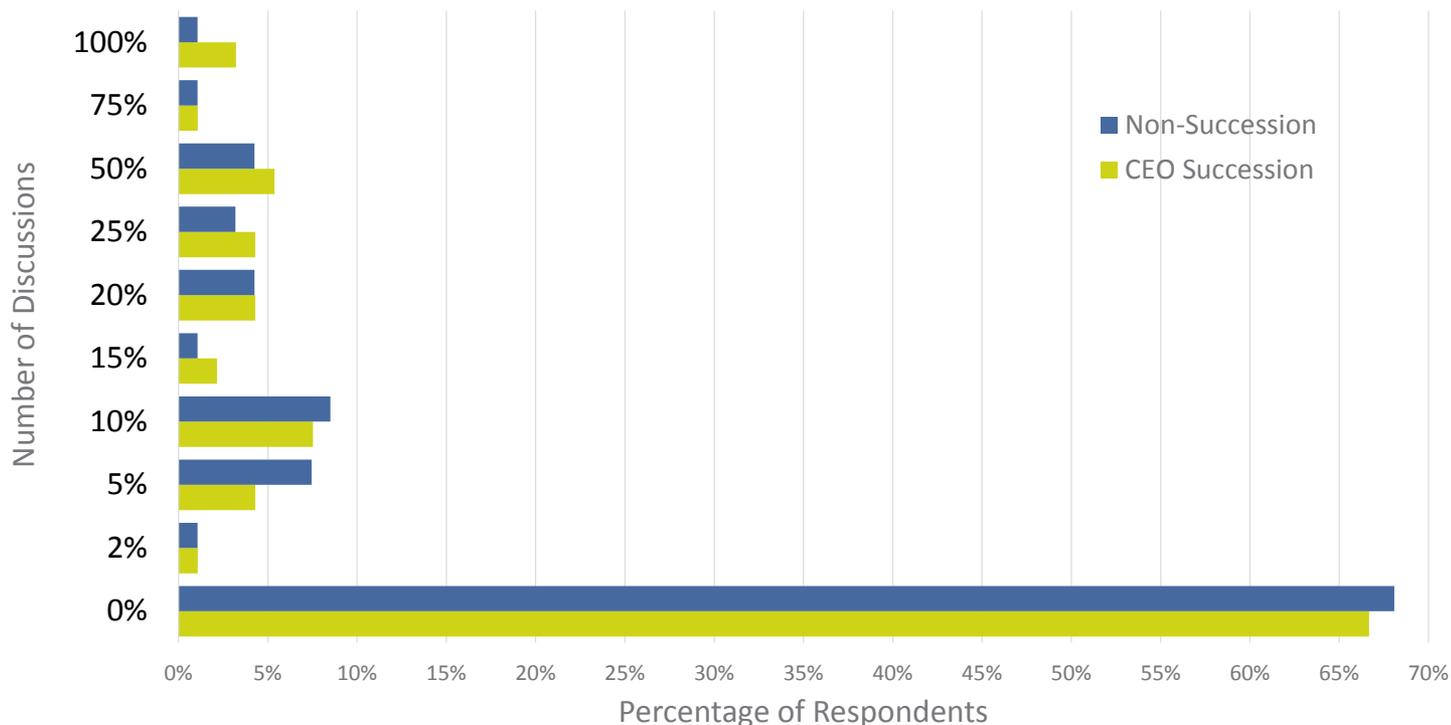


Figure 10
CHRO-Board Discussions (absent the CEO)



Finally, CHROs walk a fine line in terms of representing the CEO versus representing shareholders (i.e., the BOD). They can often be put in the position where the board is asking them questions without the CEO present. We asked CHROs to report the number of discussions they had with board members absent the CEO where those discussions were (a) CEO succession related and (b) not CEO succession related. **Figure 10** displays these results.

The most obvious finding from these results is that most (over 65% for both CEO succession and non-CEO succession related) CHROs never have discussions with the board without the CEO present. Of the rest of the discussion, there appears to be little, if any, difference between discussion related and not related to CEO succession. However, these results also imply that CHROs seldom talk with the board without the CEO present.

SUMMARY

Anecdotal data and past surveys indicate that CHROs increasingly spend time with the BOD. While the bulk of these interactions continue to focus on executive compensation and succession, we suspect that given some of the recent scandals attributed to culture (e.g., Wells Fargo, Uber), that this will be an additional area where board members call on CHROs for more input.



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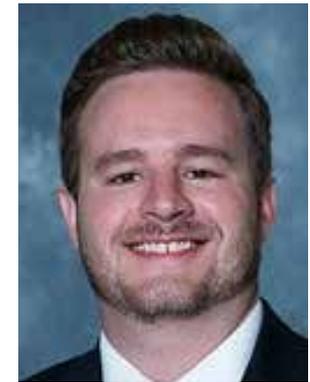
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The Center for Executive Succession serves as an independent, objective source of knowledge regarding C-suite succession practices. The center provides a forum for corporate leaders to shape the future direction of succession practices, which are increasingly one of the board's top governance priorities. Our partners have the opportunity to contribute to cutting edge research that challenges the status quo and is empirically driven to further success in C-suite succession planning. For more information or to inquire about potential membership, please visit our website or contact us at CES@moore.sc.edu.



The Darla Moore School of Business at the University of South Carolina is home to a world-class faculty and eight major research centers. It is committed to educating leaders in global business and to playing a central role in the economic growth of the state by bringing the world to South Carolina and South Carolina to the world.

Founded in 1919, the Moore School has a history of innovative educational leadership, blending academic preparation with real-world experience through internships, consulting projects, study abroad programs and entrepreneurial opportunities. The Moore School has grown into a thriving site of academic excellence with an enrollment of more than 5,500 undergraduate students and more than 800 graduate students. The school offers a wide range of programs in nine undergraduate concentrations, seven master's degree and two Ph.D. degrees as well as executive education programs and consulting services to the business community.

In 1998, the school was named for South Carolina native Darla Moore, making the University of South Carolina the first major university to name its business school after a woman.

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