Governance April Issue 203

Feature

Human capital management

Chris Roebuck looks at the importance of the board's role in effective human capital management and argues that it can be both a risk ignored and an opportunity neglected.

For most people at board level what counts, and rightly so, is dealing with the 'here and now' of making things happen. The fast approaching deadline in their area of functional responsibility is the key priority most at board level face. In this world there is a natural focus, and correct, focus on delivering operational objectives. As for the future most feel this is easily covered with the occasional reviews of the future direction of the organisation in strategy development meetings. Further the board will regularly check the management accounts and other data to ensure effective delivery of objectives and avoidance of risk. However in this environment an over-riding emphasis on only short-term delivery may indicate possible problems could arise for the organisation in the future.

This short-term focused approach will ensure that, in the majority of cases, the organisation remains viable, but it also means that the organisation may well not achieve its full potential in terms of performance. Further it also means that some low-level risks which are not so easy to spot could be missed which, over time, could have a severe impact on performance and viability. These low-level risks are often not obvious from either the normal data presented to the board or from what is happening day-to-day in the organisation.

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For example a slow departure of the talent of the organisation to competitors over two to three years isn't, in many organisations, going to ring immediate alarm bells or be obvious in any one set of management data. Even more worrying is a long-term failure to develop strategic leaders for the future from lower level managers. This won't appear in the management accounts, but is a significant risk to the organisation's future. Similarly a disengaged workforce that is performing acceptably but which could, with simple changes, perform up to 30 per cent better will not be revealed by either management data or even HR specific performance data.

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Adequate organisational performance is not good enough. The board, because of its obligations to shareholders or stakeholders, must not only make sure that the organisation performs adequately but it must ensure that performance is maximised. Achieving this requires a significantly different approach from those on the board than one that just gets by with adequate performance. The problem is that this difference between adequate and potential maximum performance is rarely obvious to those on boards either looking internally or externally. There are very few organisations operating at maximum performance globally and in some sectors maybe none. Organisations performing at this level represent maybe less than five per cent of the total population. Therefore most on boards see performance that is, when set against global benchmarks, only adequate but which, when set against local benchmarks is seen as high performance and the norm and thus the benchmark to aspire to. Maximum organisational performance is something that very few on boards have personal experience of and therefore it is very difficult for them to either visualise or define as a part of the strategy. That is the reason that those organisations which do achieve it are world class and often, in the commercial world, beat their competitors.

This demonstrates the link between what could be called 'low-level risk' and 'loss of organisational performance potential', the former degrades performance over time and the latter prevents possible optimum performance. Both challenges must be addressed. Effectively doing so is vital to success so the world class board needs to be able to identify ways to deal with these, enshrine these solutions in their strategy and deliver operationally.

Steps to enable better organisational performance are the critical remit of the board as a whole, through input from executive directors and oversight from non-executives.
This agenda is not just the remit of the Human Resources Director (HRD). In organisations where this responsibility is 'off loaded' onto the HRD it is indicative of poor organisational performance both currently and in the future. Maximising performance is the responsibility of every senior leader on the board, both within their area of authority and across the wider organisation in their role as a strategic leader.

The key to maximising performance is in maximising the performance of the human capital, the people, in the organisation. Many risks or loss of potential relate to the people in the organisation and how they behave. This 'asset' of the organisation requires more careful management than any other, it is vital to the sustainability of performance and has the ability to leave and not come back if it is not treated right. That is something often forgotten. Too often the human capital issues are viewed by non-HR executives as not their responsibility. Even if they do feel a responsibility they often have neither the knowledge nor confidence to deal with them. This is a risk in itself.

Does good Human Capital Management (HCM) make a difference? Yes, we know that in most organisations about 50 per cent of staff could perform 30 per cent better if they wanted to; we know that the average line manager could improve the performance of their people by up to 40 per cent; they can reduce the risk of talent loss by up to 87 per cent. The line manager is responsible for about 80 per cent of the employees' decision to give high performance or not. Top management also plays a role in making high performance happen. It is interesting that the evidence suggests that a high performance culture also has the effect of reducing risk as well. This is data from the Corporate Leadership Council based on study of over 30,000 employees globally.

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In a very high percentage of organisations the highest cost to the organisation is that of staff, and indeed the future viability of all organisations in terms of high quality customer service, innovation, improving efficiency and productivity lies with staff. So all board members must have a good understanding of what good HCM looks like, what the risk areas are in HCM and what are the critical questions that they should ask of themselves, their colleagues, their teams, and even the HRD. This will allow all board members to be fully effective in their role whereas many now have, though through no fault of their own, a weakness in this area. This responsibility is made even more difficult to deliver for board members if the HRD is not actually on the board and may only attend as an observer or to report infrequently. Having someone unfamiliar with HCM reporting to the board on the basis that the HRD reports to them is hardly effective or risk free.

Small points that seem unimportant to even experienced board members may have significance to HCM in terms of minimising risk and maximising performance long term. The board must be helped by the HRD to understand the basics of HCM and the areas in which they need to look for risk or possible performance improvement in their own teams and across the organisation. The whole executive team must be responsible for HCM, as they are in world class organisations; they bear responsibility for developing the leaders of the future, for engaging and maximising the performance of staff, for ensuring that talent is not lost to competitors, for creating a high performance culture. That responsibility isn't just about agreeing to making it happen at the board table but it is about actually making it happen in their teams and departments every day. That requires an organisational HCM strategy, personal knowledge about it and a real desire to make it happen. In many organisations all three are lacking, dooming them to never being able to lead their sector and beat their competitors.

The good board members should be looking at the organisation's HCM activities to minimise long-term risk and maximise current and future performance. This applies both in their own area of responsibility and across the organisation. Many HRDs think that colleagues only know about, or are interested in, their own functional area, the hard data from that area and the overall management financials. Once an HRD knows that their colleagues really understand the key elements of HCM and want to do something about raising performance it will spur the HRD on to driving even better performance and a virtuous circle effect will be achieved with success breeding success.

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