

Corporate Governance

Does HR have a role?

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The winds of change

There has been a trend, a good trend, in recent years which has seen HR as a business function move from the perimeter to centre stage. No longer merely a member of the supporting cast, HR has assumed its place as an A list actor on the business stage.

This begs the question ‘where next for human resources?’ Certainly it is true that in many organisations HR is still cementing its place as a strategic player; still justifying its seat at the table. Nevertheless, HR has clearly broken through to be grudgingly accepted as important for more than hiring and firing people. While we keep battling to hold the ground we have seized by proving our worth to the business, it could be advantageous to make a bid for an even bolder role. I am talking about the top tier; the inner sanctum of decision making and direction setting: The Board of Directors.

Top level corporate governance is not usually an area of business that one associates with a need for human resource advice or support. Boards tend to be both physically and psychologically removed from the day to day humdrum of human resources. The rule seems to be that these people make the real decisions and everyone else implements them without question.

But things are changing, precedents are being set, and the chasm between the Board and HR is being bridged by major companies in some exciting ways. Now is the time for the HR manager to truly position her team to play a part in the biggest game of all. If HR, through executive advocates, can engender within the Board a sense of reliance and desire for what human resources can do on a strategic level to build corporate governance then we have truly arrived. Any insecurities about the legitimacy of HR as a key player will be swept away as the Board embraces what we can do to make corporate governance work within the company.

Seize the moment

In recent years there has been a crisis of corporate governance. Stories of one corporate collapse after another have highlighted the extent to which even enormous corporations are susceptible to self destruction. Greed, ignorance, blind faith,

arrogance, deception... these are the causes of crimes which have seen corporate kings sent to jail. Boards have been given a jolt; they are accountable for good stewardship and will be held responsible and punished where they are found to be negligent. As the dust settles, Boards are looking more than ever before to the organisation for support and advice. This is especially true in regards to areas such as corporate values, ethics and organisational culture – all of which usually live with HR. IHS, a global provider of information services and products in 100 countries, is just one of many companies that places its ethics policy at the top of its corporate governance agenda.

The top tier has come to realise that a far more inclusive and transparent approach is a safer platform on which to take big decisions. In many companies this has opened a door of opportunity for organisational players to stake a claim for forming a closer alliance with their Board. This is an opportunity which must be seized; waiting for an invitation could leave you out in the cold. The door is open but the directors will only hear the representations of HR through senior executives.

It is important that HR forge strong relationships with key people who attend board meetings and can advocate for the value of HR. Being able to persuade the CEO and CFO that HR can lead corporate strategy in important areas is vital if HR is to be heard at the board room table. This may sound a distant hope but the evidence is there to suggest big companies are establishing links between the board of directors and HR through board committees.

Examples from business

LionOre Mining International has a ‘corporate governance’ tab on its website which takes the reader to a list of governance charters, policies and codes. One charter is the Human Resources, Nomination and Governance Committee Charter. This charter establishes a committee to provide the board with “focused input” regarding HR policies and practices.

The Bendigo Bank’s board has six standing committees which directly advise the board to help them discharge their duties. One of the committees is the Governance and HR committee.

Through the Managing Director the HR manager is able to put important human resource matters to the board. Very few other business functions are represented by a standing committee.

Human Resources is well placed to provide advice to the board of the pharmaceutical giant AstraZeneca as the company prioritises corporate responsibility (CR) within corporate governance. The board's HR committee oversees policies in critical CR areas such as human rights, minimum wage and child labour across the globe.

Australia Post has just two board committees, one of which is the human resources committee. This committee reports to the full board on the usual corporate governance issues but also on culture and ethics and on learning and development. This is a clear indication of just how important HR functions are now viewed by boards in terms of organisational success.

The future

Boards cannot afford to go back to the past where HR was viewed with suspicion as lacking a business edge and when things like culture, ethics and values were just add-ons. The realisation is that to stop the corporate rot that brought down companies like Enron, WorldCom and, in Australia, OneTel and HIH, then advice and commitment from HR experts is critical. Through senior executives HR managers are better placed than ever to influence key people policies before the board.

In 2004 the Organisation for Economic Co-operation and Development (OECD) published a document entitled *Principles of Corporate Governance*. The advancement of corporate governance within public and private organisations of member countries (which includes Australia) goes to the heart of Article 1 of the OECD 1960 Convention. The organisation exists to improve the financial, social and economic sustainability of member countries and corporate governance is a cornerstone of this because good corporate governance engenders public and investor confidence.

Section IV of the document, *The Role of Stakeholders in Corporate Governance*, gives some insights into the OECD's plans for member countries moving forwards. There is a strong indication that employees will gradually become more involved in the carriage of corporate

governance and that HR will be best positioned to facilitate that.

Specifically, Section IV outlines that good corporate governance is about optimising the human capital of stakeholders (employees are listed as key stakeholders). It goes on to state that competitiveness and ultimate success in organisations is a result of teamwork that embodies the contributions from 'resource providers' such as employees. The document argues that corporate governance should seek to devise mechanisms for employee participation including employee participation on boards and that employees should be able to communicate freely to boards regarding serious issues such as unethical or illegal practices.

HR – that often eclectic band of business activities that get grouped together – has come a long way in recent years. Once very much left outside in the cold, we now find ourselves sitting at the hearth with the rest of the business. Now there is an opening to lead the business by grasping the opportunity to forge an alliance with the board through our executive. Now we can take the main role in shaping and guiding corporate governance within the organisation – and there's no more strategic task than that one!