

HR Career Development Series

Critical Concern White Papers

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Human Resources and Compensation Committees: Leveraging Expertise

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There is one important table where HR leaders still lack necessary influence, leaving many companies to pick up a costly tab. That is the contention of some HR thought-leaders who work closely with executive compensation. The dearth of Human Resource professionals sitting on compensation committees contributes to organizational performance problems. It may even contribute to the ethical lapses plaguing many firms. HR leaders can remedy the situation by preparing themselves to sit on boards or compensation committees.

Of course, Human Resource professionals have input; the CHRO is usually invited to share his or her views, and the compensation consultants should represent an HR perspective. They provide expertise, even if they do not have a vote. The lack of a vote, however, is the key point: HR leaders have input, but not the influence of other disciplines. This is not to say that HR leaders should sit on their own company's boards – that creates its own set of conflicts and opportunities for ethical improprieties. Rather, leaders in the HR profession must demonstrate willingness and ability to contribute as members of boards and compensation committee that are not their own.ⁱ

Brent Longnecker, Chairman and CEO of Houston compensation consulting firm Longnecker and Associates, has viewed the problem up close. “Too often I see compensation committees without a single person with HR training. Many of their issues are fundamentally HR-related and getting to the right answer becomes a struggle.” Longnecker compares the situation to what the SEC found with audit committees. “Years ago the SEC realized that audit committees did not have the types of financially sophisticated people needed. As a result they put in requirements that now require financial expertise to be on an audit committee, which was an excellent move.” The lack of HR expertise among the voting members of compensation committees is similarly disconcerting.

Longnecker, who is presently on a board—and has been on others in his career—observed, “One would be surprised at the type of junk that gets recommended to compensation committees that is flat wrong and, if implemented because no one truly understands HR, would put the company

in jeopardy. Having at least one strategic-minded HR person on the committee to address issues around tax deductibility of plans, FLSA, Age Discrimination and the like would generate a huge ROI over time.”

Cornell University Human Resources professor, Patrick Wright, commented on the ethical consequences of HR’s silence at the board level: “Conflicting incentives also seemed to plague Boards of Directors at some of the companies marred by the recent scandals.... These scandals should provide adequate incentives for HR to expand its view of where it should be involved. Who within the organization better understands incentives, and how such incentives can create conflicts?”ⁱⁱ Compensation committees need HR’s insights into the connection between pay and behavior, especially the unintended behaviors frequently engendered by executive compensation.

Getting HR professionals onto compensation committees faces resistance on three fronts: compensation consultants, senior management, and HR Leaders themselves. Longnecker noted that, “A lot of compensation consultants are financially interested in keeping HR on the administrative side, not the strategic side of the business. Keeping HR focused on reactive issues is usually a whole lot more profitable than when they are proactive. A good consultant will work hard with HR to be ahead of the curve, not behind it.” HR needs to reshape the relationship with compensation consultants, insisting on more than administrative input.

Keith Hammonds of *Fast Company* summarized the second obstacle facing HR leaders. Some senior managers still disparage HR professionals’ desire to have a ‘seat at the table’: “They have no seat, and the table is locked inside a conference room to which they have no key. HR people are, for most practical purposes, neither strategic nor leaders.”ⁱⁱⁱ There is an undeniable animus held against HR by some executives. Gaining placement on a compensation committee where such attitudes persist will be extremely difficult.

In summarizing his research on CHRO succession planning, Dr. Wright observed, “the part of the job CHROs felt least prepared for was dealing with the board of directors.”^{iv} This suggests the

third front facing HR professionals: they often lack important experience or training. Anthony J. Rucci, Executive Vice President and President, Strategic Corporate Resources at Cardinal Health Inc., observed, "Business acumen is the single biggest factor that HR professionals in the U.S. lack today."^v Even in companies without an anti-HR prejudice, the compensation committee will remain closed to HR leaders who cannot demonstrate the acumen to add value.

Compensation committees need HR's presence. They need HR professionals with the skills to sift through what are, at their core, both HR and business issues. Jim Hess, Principal of Leapfrog HR Executives in Dallas/Fort Worth, encourages emerging HR leaders to start developing these skills as early as possible. "It is never too soon to become the caliber of business leader necessary to sit on a compensation committee. This means developing a wide range of business skills and experiences." Hess continued, "Also, board seats are acquired through relationships. Seeking the guidance of a talented mentor can dramatically accelerate your development and access to board participation."

For some companies, enhancing their compensation committee's HR expertise might take the sort of outside pressure the SEC applied to audit committees. Hopefully, boards will see the need on their own. Either way, HR leaders must diligently prepare to contribute their unique insight, training and experience at the highest levels.

Endnotes

ⁱ I gratefully acknowledge Dr. Patrick Wright, professor of Human Resources at Cornell University, for his helpful insights throughout the article, but especially with points related to this paragraph.

ⁱⁱ Wright, Patrick. *Restoring Trust CAHRS WP03-11 – White Paper*; www.ilr.cornell.edu/cahrs

ⁱⁱⁱ Hammonds, Keith. “Why We Hate HR,” *FastCompany.com*; August, 2005; www.fastcompany.com

^{iv} Wright, Patrick. “Tips for Building the CHRO Pipeline,” *Human Resource Executive*, July 1, 2008, LRP Publications

^v Hammonds, Keith. “Why We Hate HR,” *FastCompany.com*; August, 2005; www.fastcompany.com

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