

The Board Imperative:
Further unlock the
strategic value of
CHROs



Building a better
working world

Boards and Chief Human Resources Officers (CHROs) should support and challenge each other to get the most out of a shifting talent dynamic.

In brief

- ▶ The ongoing disruption of recent years has exacerbated the talent crisis. People risks now top the board agenda, causing the CHRO role to become even more strategic.
- ▶ To stay ahead, organizations must put humans at the center of their transformation. Yet, EY teams' research suggests a gap between what employees want and what employers think they want.
- ▶ CHROs and boards can overcome challenges by collaborating to enhance the CHRO role, get talent governance right and create a human-centered culture.

As disruption is now a modern-day constant, organizations across all industries must go through wave after wave of transformation – and talent plays an integral part in every challenge they face.

As a result, Chief Human Resources Officers (CHROs) and their equivalents have had to move far beyond traditional human resources territory; to support and advise the CEO on their transformation and growth agenda. But to attract, retain and deploy the best talent, today and into the future, organizations must accept that skilled employees now hold much of the bargaining power.

As ever, boards need to oversee the talent agenda in a way that reflects the current dynamic. That means making sure that talent remains a top business priority and the CHRO maintains their elevated status. It also involves supporting the CHRO in listening to employees and influencing the organization to create a human-centered culture and a more personalized employee experience.

For the third and final article in the series “The Board and the CxO,” we’ve interviewed EY professionals and clients to better understand why the relationship between the board and the CHRO is increasingly important. We’ve then suggested how to enhance this dynamic and ways of working to further unlock the strategic value of the CHRO role. By doing so, organizations can use the current, unprecedented workforce trends to create a competitive advantage, rather than simply mitigating the risks.

The role of the CHRO

The CHRO, Executive Vice President – Human Resources, or equivalent (in many organizations, the Chief People Officer or CPO) has always been responsible for everything related to people in an organization. That includes developing and implementing a strategy for how the organization attracts, onboards, develops, rewards, engages and retains the talent that the organization needs to succeed. It also includes C-suite succession, executive compensation, change management, and diversity, equity and inclusion (DE&I) initiatives.

Today though, the role also encompasses factors that have become critically important to employees. These include culture, well-being, and purpose, which increasingly encompasses reducing social and environmental harm. They also include access to meaningful work and development opportunities, more autonomy and flexibility in ways of working.

As a result, the role has been elevated from business function lead to highly strategic collaborator. In fact, some would even argue that it's now as important to the CEO as the Chief Financial Officer (CFO).



Chapter 1

A myriad of talent challenges are putting CHROs to the test

Shifting workforce dynamics, constant disruption and a perception gap with employees: it's time organizations took a more human-centric approach.

It's the board's job to hold management accountable for making sure the organization has the critical talent it needs to deliver on its strategy. But for the last few years, a shrinking pool of skilled talent, along with growing employee expectations, have made this challenging.

The pandemic and its economic aftershocks have compounded the problem, by turning those preferences into a [wholesale shift of what employees value at work and in life](#). And the picture is still evolving.

An ever-changing landscape is exacerbating talent challenges

Take flexible working: just three years ago, it was a differentiator, or a way of gaining a competitive advantage. Now, nine in 10 respondents in the [EY 2022 Work Reimagined Survey](#) said they'd consider leaving their job if flexible working wasn't an option. And as the energy crisis has shown, flexibility means different things to different people.

Higher heating and cooling costs may mean younger people want to work from the office more. But employees who commute by car are likely to want the opposite, to save on gas. Some countries, such as the Netherlands, have changed their legislation to codify the right to remote work into law."

Younger generations also tend to change jobs more often, creating an imperative for organizations to determine what will keep them motivated and happy, as we explored in a recent EY study of our graduates and interns. And with flexibility increasingly synonymous with mobility for these groups, governments across the globe also need to create policies that can compete with the attractiveness of going overseas.

Meanwhile, in some advanced economies, large numbers of people over the age of 50 have left the workforce since the COVID-19 pandemic began. Organizations need to think through the implications of this shift while keeping track of market forces and, where appropriate, considering ways to attract this cohort back.

This constant disruption is forcing organizations to respond in the moment – for example, by monitoring the impact of the cost-of-living crisis on employees and finding ways to support. But this focus on the short term may be preventing CHROs and their boards from thinking strategically. That means determining what talent the organization will need to achieve its future goals, what it has now, and how to close the gap.

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The COVID-19 pandemic forced the board to elevate HR issues into operating issues.

Marcela Donadio, Independent Board Director for Marathon Oil



CHROs are more empowered, but perception gaps exist with employees

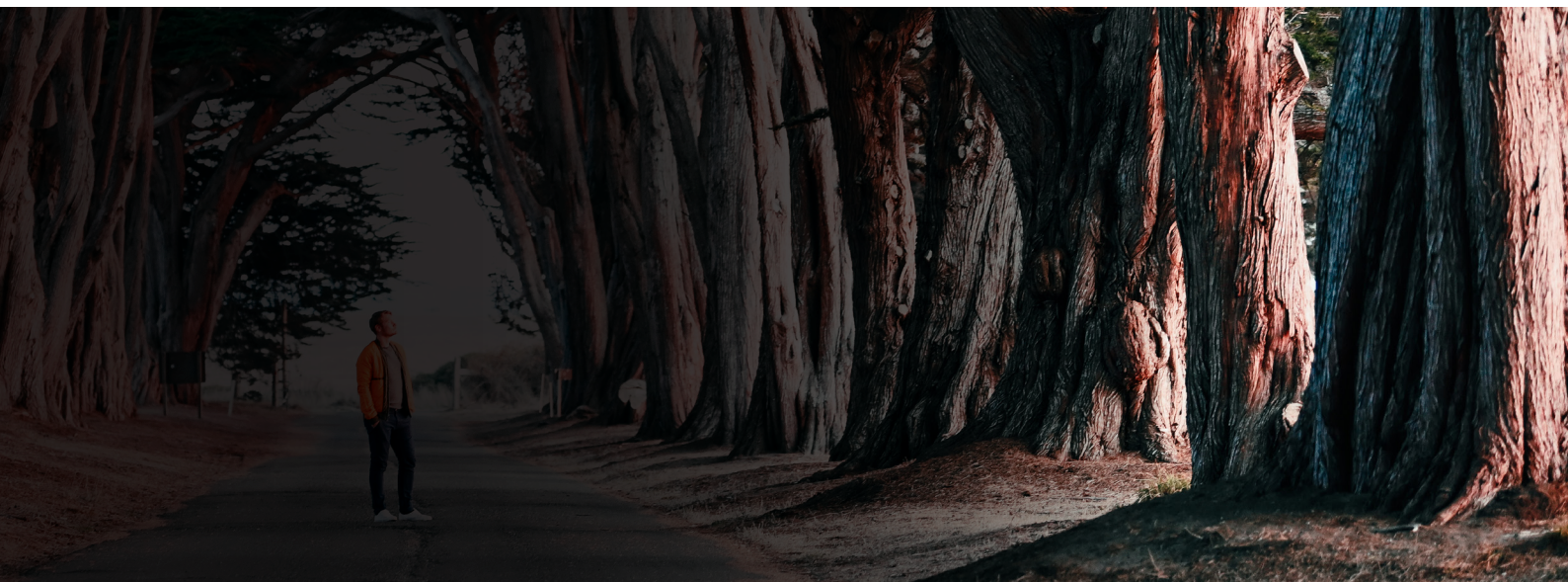
As we've highlighted, boards and their CHROs are having to navigate a fast-changing, sometimes contradictory, landscape when considering how to fulfill their obligations around the talent agenda. And they're better placed to do so than before the pandemic. "The COVID-19 pandemic forced the board to elevate HR issues into operating issues," says Marcela Donadio, Independent Board Director for Marathon Oil. "Now, more CHROs are sitting in board meetings and understanding the priorities and strategies of the business."

According to Marilyn Chaplin, CHRO at NTT, the mandates of CHROs have changed too. Now, they range from facilities management for creating geographic "hubs" for remote working, to asking: "What's the purpose of our company and how does it galvanize our people?"

When it comes to engaging employees though, the [EY 2022 Work Reimagined Survey](#) found that employers aren't always on the same page as their people. For example, employees included an increase in total pay, along with career advancement, in the top reasons why they might change jobs. Yet employers cited learning and skills and well-being as among the main factors to make sure their employees thrive.

Compounding this, we've also observed a "loyalty disconnect," in which employers believe younger generations are less loyal. But younger employees say they are simply loyal to, and value, different things. For example, younger employees value mental health and the organization's purpose and ethics, rather than management hierarchies or the work itself.

Organizations need to quickly address these perception gaps while realizing the potential of every single employee. "Putting [humans at the center](#) has to be a strategic priority for the board and the CHRO, to better understand what employees across all demographics want," says Lay Keng Tan, EY Asia-Pacific People Advisory Services leader. "By doing so, the organization can be proactive and flexible in meeting those ever-changing needs."



Chapter 2

Three ways boards and CHROs can support each other to succeed

Boards and CHROs must collaborate closely on roles, governance, strategy and culture to turn talent risks into opportunities.

Boards can support CHROs (and vice versa) through three key actions – each comes with its own practical considerations.

1. Enhance, champion and enable the CHRO role

Organizational culture, including social inclusion, purpose and wellbeing, has become a key aspect of what engages current employees and attracts prospective ones. So, a first step for the board and the executive team is to decide who will oversee this critical area.

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Once it's agreed where responsibilities lie, the board should:

- ▶ Discuss and challenge the CHRO, or equivalent, on areas that now fall within their scope, such as reputational talent risks, corporate activism and rebuilding the social contract.
- ▶ Support the role externally, particularly to investors, by explaining the considerable benefit to the bottom line of being recognized as a top employer brand.

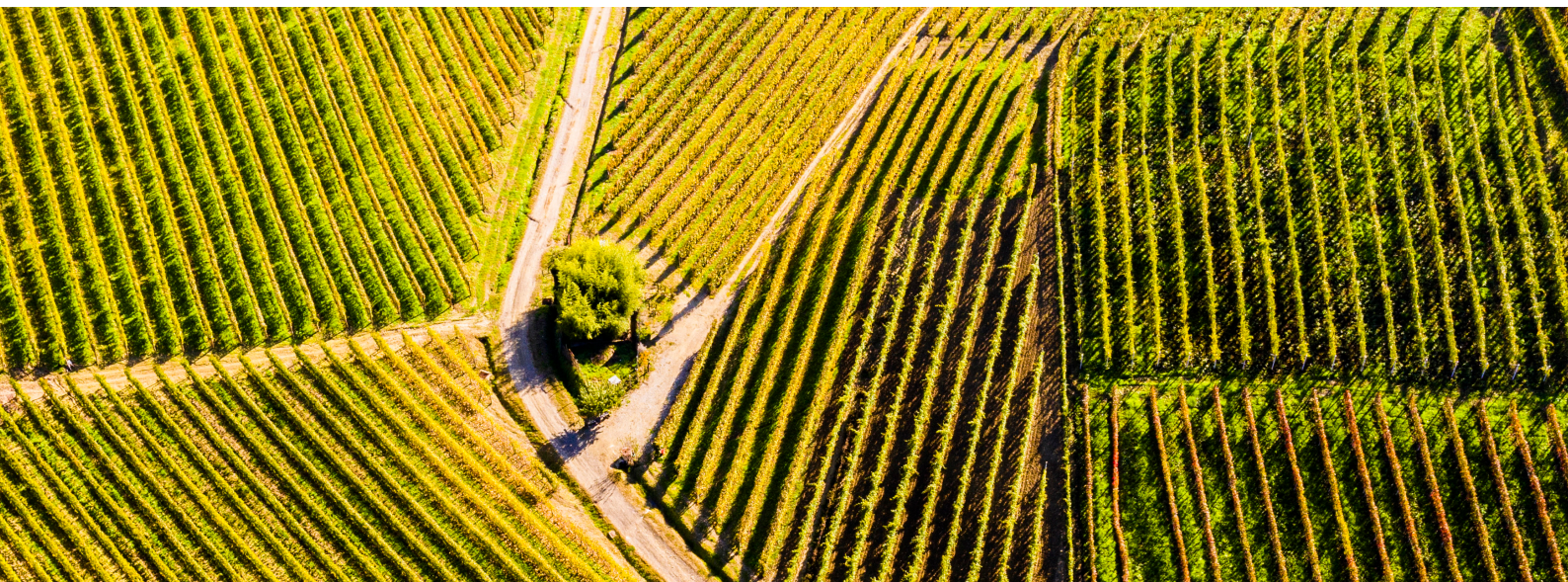
The board should also be asking: Does the HR team have the right skills and experience? Does it have the support of the CEO and other C-Suite members? And is the CHRO held accountable for results, just like the other C-Suite members?

In return, Cris Wilbur, Chief People Officer at Roche, says it's the CHRO's job to engage the board on key topics such as the external market conditions and the internal view, specifically: what talent the organization has, how to retain key people as well as to understand critical current and future skills and how to address talent gaps.

"We know we're not the place for everyone," says Wilbur. "We give people the information to help them make the best choice for themselves and for their circumstances. It's an important part of how we develop our leaders and engage our people."

They should also highlight and examine in detail the large-scale changes affecting the organization and challenge the board to look at things in new and unconventional ways. To do so, the CHRO must have access to the board early on, so they can build and demonstrate credibility, trust, and transparency. This will enable them to confidently bring transformative new ideas when appropriate.

Finally, both the board and the CHRO should continue to prioritize their traditional responsibilities of overseeing executive compensation and C-suite succession planning. When done right, the former makes sure that incentives align with the cultural behaviors the organization wants to embody. And the shifting talent dynamics mean that the latter is featuring more prominently than ever in boardroom discussions.



2. Revisit the board's risk framework to better support the talent agenda

Talent now regularly tops the risk agenda of organizations globally. But as risk profiles are determined by sector, size and other factors, each organization will address theirs differently.

As such, boards should work with their respective CEOs and CHROs to assess what's right for them. These discussions don't need to wait until board meetings, but can occur through regular check-ins with various board members, including the Chair.

Discussing and determining what role the board should play in its oversight role in talent issues will make sure it resists any urge to micro-manage. It will also help inform what governance structures are appropriate to support the CHRO.

For Jill B Smart, Board Director at EPAM, HireRight, World Fuel Services Corp and AlixPartners and President of the National Academy of Human Resources (NAHR), this includes determining which committees handle what. Where should Diversity, Equality and Inclusiveness (DE&I) sit, for example, and what is the best way for the board to hold the CEO and the management team accountable for DE&I results?

The board should also consider how the governance structure could incorporate the employee voice. As Smart says: "Employers need to focus on the whole individual and hearing what they want – even if they can't give them everything they ask for."

When looking at structure, it may be advisable to examine the current board's own composition, as part of a wider effort to examine and improve DE&I across the organization. Historically, board directors have tended to

have decades of experience in more traditional areas, such as finance and law. But the emerging risks and challenges we've identified call for the board to supplement these skill sets. For example, they could invite someone with a different way of thinking to the boardroom, such as a behavioral psychologist or anthropologist. Visit the EY Australia site to discover more ideas via the [EY Board of the Future](#).

The CHRO can support these efforts by making sure the board has access to, and is learning from, best practices in the industry. This will enable the organization to become more purpose-led and performance-driven.

3. Support CHROs to create a human-centric strategy, culture and employee value proposition

Boards should work with their CHRO to balance the needs of the people strategy and the business strategy, as well as help to define and uphold the organization's culture.

That means considering not only what employees need from the organization, but equally what the organization needs from them.

"As boards look to the future, one of the top-of-mind boardroom topics is the talent agenda. The question being discussed is whether the company's talent is positioned with the relevant skills for the future success and growth aspirations of the company, and the CEO and CHRO are key to that strategic discussion." says Sharda Cherwoo, Non-Executive Board Director at World Fuel Services Corp and Land O'Lakes Inc.

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Employers need to focus on the whole individual and hearing what they want – even if they can't give them everything they ask for.

Jill B. Smart, Board Director at EPAM, HireRight, World Fuel Services Corp and AlixPartners and President of the National Academy of Human Resources (NAHR)

These discussions then need to feed into the overall strategic talent plan for attracting, developing and retaining the people needed to achieve the organization's strategy. The board can support the CHRO to deliver on this plan by making sure each individual feels heard, valued and supported.

Board directors don't need to know the granular detail of these employee insights, but they should be apprised of the potential risks, opportunities and impacts. That way, they can make sure the overarching strategy, culture and organizational employee value proposition reflect the needs of different employee groups. And that, where appropriate, they allow for personalization.

Culture is a particularly important factor for boards to consider. Research shows that companies that fully understand and embody their cultures outperform their peers by a factor of three, while those with deep cultural issues stumble or even collapse.

As boards become increasingly responsible for overseeing this crucial area, they should make sure that the cultures of their respective organizations are in lockstep with their strategies around talent and retention. In return, Smart says the CHRO should go through the organization's employee value proposition in detail with the board and support them with plugging any gaps in their understanding.

The effective use of data should be central to all these discussions. Presenting the board with clear, concise and well researched findings and recommendations will engage them better and obtain their buy-in. "The CHRO role today is design-led and data-driven," explains Chaplin. "By leading with the numbers, you'll get the board and the management team thinking of talent data in the same way as financial data."

Understanding the dynamics behind employee decisions

To meet the needs of current employees, and attract new ones, boards will also need to keep educating themselves on current and future trends shaping their thinking. For example, they could invite subject matter experts to provide commentary on inflation and the cost-of-living crisis, or to help [plan for the metaverse and what it means for employees](#).

Regular scenario planning could also enable boards and CHROs to prepare for the next wave of disruption, such as a global recession. This preparation could include [learning from organizations that handled similar issues well during the COVID-19 pandemic](#).

Finally, it's more important than ever that organizations behave in a way that's open, authentic and transparent. CHROs, along with other executives, need to work with their boards to determine what position, if any, they should take on social issues. They should then make sure this position aligns with the organization's values and communicate it clearly.

CHROs and their boards should also be transparent about what the organization offers its employees. "We know we're not the place for everyone," says Wilbur. "We give people the information to help them make the best choice for themselves and for their circumstances. It's an important part of how we develop our leaders and engage our people."

According to Cherwoo, this authenticity and transparency has to start at the top and with the CEO. The board should make sure the CEO is leading by example and setting the tone and working closely with the CHRO in holding leaders accountable for doing the same.

Fully understanding and embodying the company's culture is key for organizations to outperform the competition. Aligning culture with talent strategy is now an imperative.

Key questions for boards to consider

1. How are you supporting and reflecting the strategic importance of the CHRO role through improved talent governance, both formal and informal? How often, if ever, do you get together with the CHRO outside of the normal cadence of board meetings?
2. How are you working with the CHRO to make sure the organization stays on top of talent issues and addresses ever-changing employee sentiment? How will you know you've been successful?
3. How are you making sure that you, the management team and the wider employee organization are upholding the values of the organization and its culture? What mechanisms do you have in place to measure this?
4. Does the organization have the critical talent and skills, including in its leadership pipeline, to realize its business strategy? If not, what plans are in place to address this?
5. As a board member, what role (if any) do you see yourself playing in creating a sustainable workforce and accelerating progress on the talent agenda? For example, reskilling the workforce, measuring the employee experience, increasing employee retention, and embedding hybrid ways of working into the culture of organization?

Summary

CHROs have always been integral to the success of organizations. But thanks to recent and ongoing events, they're now arguably as crucial to CEOs as the CFO – and their strategic value needs to be unlocked. There are three key areas where CHROs and boards can support and challenge each other: rethinking and enabling the role of the CHRO; putting the right talent governance in place; and creating a strategy, culture and employee value proposition that puts humans at the center.

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