A Heightened Interest in Human Capital as a Strategic Asset

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Human capital provides a major source of strategic agility and innovation for most corporations. Increasingly, boards and their committees must be thoughtful and diligent about monitoring their organization’s human capital strategy and effectiveness. When boards remain overly preoccupied with their traditional duties of oversight, they risk exposing their management teams and enterprises to considerable opportunity loss. Serious dialogue with management about human capital enriches the quality of the board’s contribution, ensures better use of human capital as a strategic asset, and ultimately enhances the company’s value and performance.

Yet the current charters of most Fortune 100 companies describe the formal scope of board interest as mainly executive succession, compensation and leadership development—with some instances of diversity and inclusion. Meanwhile, some professional HR organizations in the United States have been in vigorous discussion with policymakers about having mandatory investor reporting standards on human capital issues.

There is a need for boards to expand their field of view to include such key drivers of human capital effectiveness as recruitment and retention, performance management, international workforce planning and mobility, levels of employee engagement, organizational change agility and pipeline management of mission-critical talent.

As one CEO observed, “You need a robust answer ready for the director who asks how you will deliver on a strategic initiative in a market with too few engineers emerging from the local education system to make it a realistic proposition—especially when the answer to that question covers a wide range of interrelated human capital initiatives.”

So, as more boards become increasingly serious about overseeing human capital with the same rigor they have traditionally focused on other strategic assets, the following actions are required:

■ Confirm executive commitment to human capital as a strategic asset.
■ Oversee human capital strategy, investments and execution.
■ Make the right board contribution to enhance human capital.

At the heart of this approach is the recognition that greater emphasis on human capital can significantly increase an organization’s potential for sustainable competitive advantage. In many cases, this requires a fundamental reordering of strategic priorities and reallocation of investments. Greater engagement with their boards can help executives navigate these challenges to organizational effectiveness. A number of progressive boards embrace this role as an essential, value-adding governance obligation. Here’s how:

1. Confirm executive commitment to human capital as a strategic asset.

Throughout the last decade, the statement by corporate executives that “people are our most important asset” has been overused and devalued. Nonetheless, boards need to know that the human capital asset truly is taken seriously among the top leadership of their organizations. A committed senior team will understand the role of human capital in executing the overall vision and business strategy. It will have solid ways to measure the human capital environment as well as a deep grasp of the associated vulnerabilities and opportunities for the organization. As a result, senior leadership becomes extremely savvy about the key drivers of human capital effectiveness, including socio-economic and political conditions that affect external labor supply, internal labor movement, organizational capacity and capability, diversity and inclusion, and employee engagement levels.

One of the most important conversations that a board can have with leadership is about how the company’s human capital assets deliver strategic and
competitive differentiation. As part of that conversation, executive leadership should be ready to describe what is distinctive about the company’s culture and employee experience, and how that strengthens the human capital asset in terms of developing and retaining high-performing individual and collective talent. For a board to provide its best guidance, it must be aware of the overall environment and recognize the contribution of the human capital asset to overall business performance. And the board has a uniquely valuable role to play in confirming, encouraging and reinforcing management’s commitment to this critical priority.

2. Oversee human capital strategy, investments and execution. Many companies have a set of well-designed human resource programs, with clear near-term ROI, rather than a fully defined human capital strategy. Often these programs prepare the company for what is in the current landscape, but not for what lies beyond the horizon. This should be a source of concern for boards. It’s not enough to hold the CHRO accountable for the human capital strategy. The issue is an enterprise leadership responsibility, as opposed to a purely functional one.

When the board discusses business strategy with management, it will probe management’s understanding of how human capital factors into the success of the organization’s business model. And it will want to know management’s view on how the company’s human capital strategy aligns with and supports strategic initiatives. How will the technology company cultivate the next generation of product designers? Will there be enough employees with the right aptitude and attitude to lead the health care company in a radically changed economic context? What is the plan for addressing an acute talent shortage in essential roles in emerging economies, and an increasingly immobile workforce in mature economies?

Consider one example from our experience. Faced with a tough economy, strong competition, stagnating demand and a challenging regulatory environment, a leading shipping company was struggling to identify and implement growth initiatives. The board challenged the management team, comprised largely of veteran shipping industry professionals, to conduct an assessment of the company’s human capital assets and how these aligned with the portfolio of initiatives. Prompted by the board, management realized that the organizational DNA was short on skills in new-business development and in port terminal and logistics operations—all target sectors for growth. The realization triggered investments and the execution of plans for significant hiring and development.

This example also illustrates the need for a board to have data that enables an informed assessment of investment decisions and execution effectiveness—across all strategic priorities including human capital activities. With a carefully chosen set of metrics, the board can monitor those human capital initiatives that are vital for sustainable business performance and for the company’s reputation as an employer. This is the real key to success—having the board focus on a few simple metrics rather than the proliferation of workforce analytics that are readily available.

The board has an invaluable role in provoking constructive dialogue about the linkage between human capital strategy and corporate strategy, and in providing its perspective on the appropriate investment in human capital as a strategic differentiator, alongside other initiatives requiring investment consideration.

3. Make the right board contribution to enhance human capital. Of course, directors should take great care to avoid usurping executive leadership’s role in human capital management. Still, in an era of more active and engaged boards, there is definitely scope for most to develop their guidance and oversight of human capital.

In fact, boards need to think of themselves as an integral part of the organization’s human capital asset, and directors should ask tough questions about their own diversity of background, experience and capabilities; their collective effectiveness as a board; and where they can have the greatest impact on the governance and performance of their companies.

There are a number of specific practices that boards can adopt to enhance their contribution to human capital oversight:

- Review board charters and processes to determine if enough time and attention is being devoted to the right human capital issues, and amend as necessary.
- Establish key metrics so that the board can assess the health of human capital and how it is being managed.
- Embed human capital leadership and effectiveness into the annual CEO evaluation.
- Educate directors on human capital management.
- Mobilize board members, where feasible, to mentor key leaders within the organization.
- Ensure there is at least one board member with deep human capital experience and expertise. Leaders with human resource backgrounds or operational experience in talent-dependent businesses can strengthen the board’s composition.
- Make human capital a part of the full board’s agenda along with business strategy.

This kind of checklist might be overly ambitious for some boards today, especially in light of evidence that many still spend too little time on such basics as CEO succession and CEO evaluation. But with a thoughtfully tailored set of these initiatives, there is certainly an opportunity for boards to play a much more meaningful part in human capital oversight.