

Center for **Executive Succession**

2018
HR@MOORE
Survey of Chief HR Officers



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The Impact of CEO and Board HR Expertise:

Results of the 2018 HR@Moore CHRO Survey

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EXECUTIVE SUMMARY

This 2018 HR@Moore Survey of Chief HR Officers asked them to report the CEO's and the board's expertise in, experience in, and attitude toward HR. We found that neither CEOs nor boards have much experience in HR. CEOs have deep knowledge of their firm's HR, but not as much about competitors' HR. Both CEOs and board seem to have very positive attitudes toward HR.

The CEO's expertise/experience in HR was unrelated to whether or not firms ended up on positive reputational lists such as "Best Companies to Work For," but their attitudes toward HR were related to board diversity, CEO succession diversity, and the presence on the reputational lists. While many in HR have pushed for CHROs on boards, the data shows that 13% of the companies had a CHRO on their board, but having one on the board was unrelated to any of our outcomes. However, the board's experience in and attitudes toward HR were related to both board diversity and companies' presence on these lists.

OVERVIEW

As aspects of a firm's human capital, such as talent, executive compensation, executive succession, and culture, become more prominent on the radar screens of Boards of Directors (BODs), the role of the Chief Human Resource Officer (CHRO) has grown in importance. Correspondingly, in recent years boards have been increasing the number of CHROs who serve as directors to ensure that at least one human capital expert is part of the board mix. This report attempts to determine the extent to which some HR expertise exists with either the CEO or the board, and if so, the extent to which it might be associated with positive outcomes.

One of this report's authors, Frank Mullins, conducted a study examining the impact of HR expertise within BODs on firms' engagement in a broad range of diversity management activities, including hiring CEOs and managers from underrepresented groups and creating inclusive workforce policies regarding people with disabilities and sexual orientation. HR expertise was determined by manually reviewing the background of each board member to identify whether they had any professional experiences in HR. He found that firms with HR expertise on their boards were 8 percent more likely to engage in these diversity-related activities.¹ The 2018 HR@Moore Survey of CHROs attempted to go beyond the original work by providing a more detailed assessment of the HR expertise that exists on the BOD, as well as the extent of the CEO's HR expertise and support for HR.

The survey was sent in April of 2018 to 326 CHROs, and the results presented in this report are based on 116 who completed this section of the survey. We matched the survey responses to whether or not companies appeared on one of the many employer reputational lists in 2018 such as Fortune Magazine's Best Companies to Work For, Forbes' America's Best Employers, and GlassDoor's Best Places to Work.

The first section of this report describes the relationship between the CEO's HR expertise and support for HR, as well as the level of HR expertise and support among board members. The second section of the report addresses the extent to which those measures are related to the company's inclusion on employer reputational indices.

¹Mullins, F. (2018). HR on board! The implications of human resource expertise on boards of directors for diversity management. *Human Resource Management*, 57(5), 1127-1143.

CEO HR EXPERTISE AND SUPPORT

First, we asked CHROs whether or not the CEO had a bachelor's degree in HR/Labor Relations/related major. Not surprisingly as can be seen in **Figure 1**, only 5 (4%) of 116 CHROs indicated that their CEO had such a degree.

Second, we asked CHROs to indicate if their CEO had any significant prior work experience in HR. As displayed in **Figure 2**, fewer (4 CEOs, 3%) had any work experience in HR.

As a last measure of HR expertise, we asked CHROs to indicate the extent to which the CEO was knowledgeable about the HR

practices in both their firm and their competitors' firms. **Figure 3** shows that CHROs perceive their CEOs to have relatively strong knowledge of what their firm is doing with regard to HR practices, but much less knowledge regarding the HR practices of their competitors. We interpret this as meaning that CEOs see part of their role as knowing how people are managed within their own firm, but likely rely on the CHRO to have a much deeper understanding of what competitors do in regard to HR practices.

Figure 1. Does the CEO have a bachelor's or above college degree in HR, labor relations, or industrial relations?

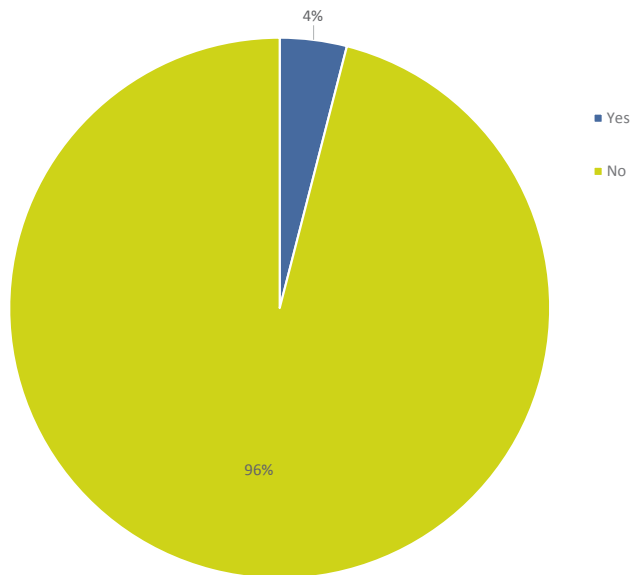


Figure 2. Does the CEO have any prior work experiences in HR?

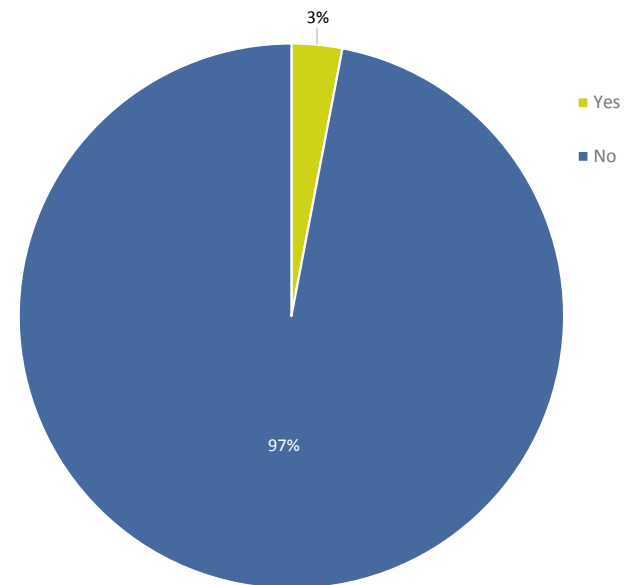
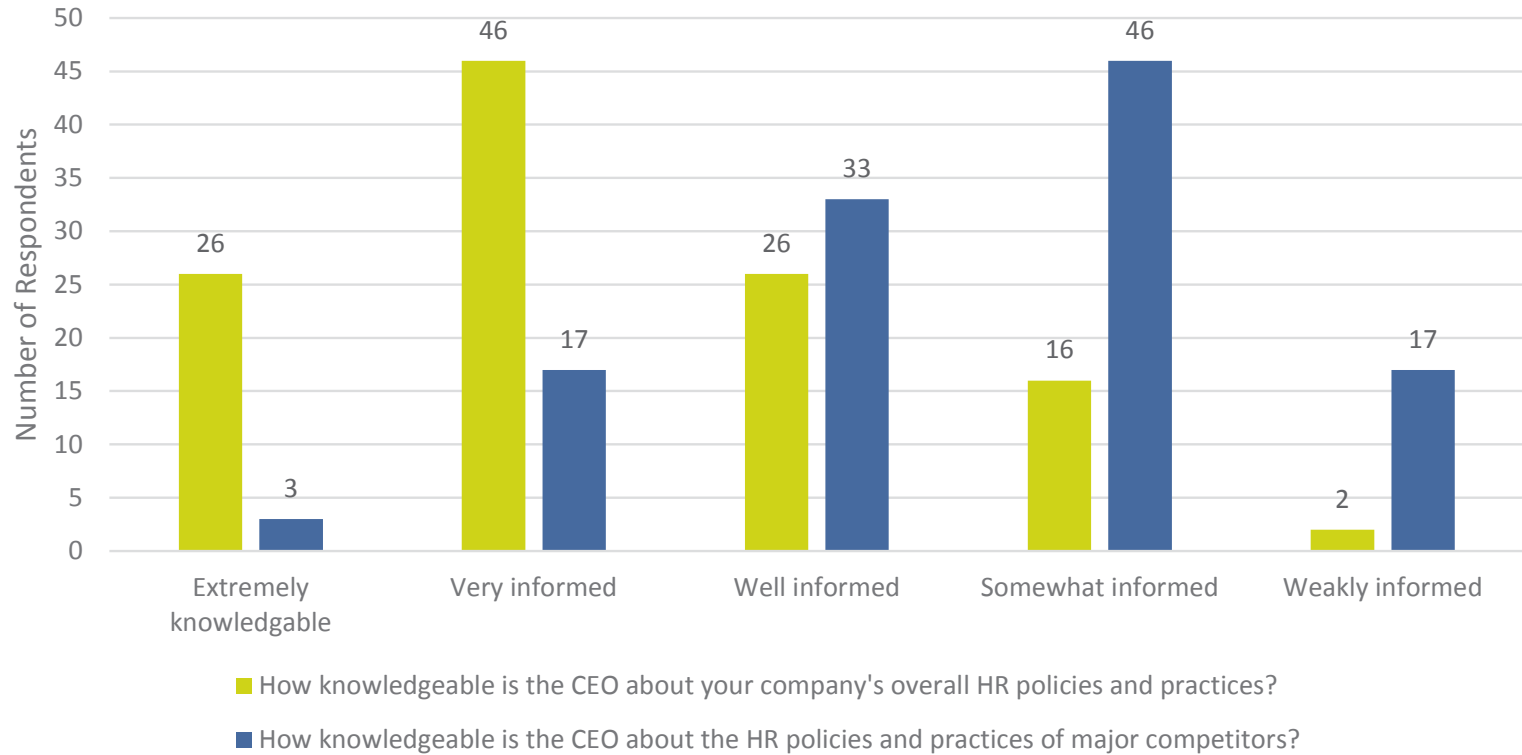


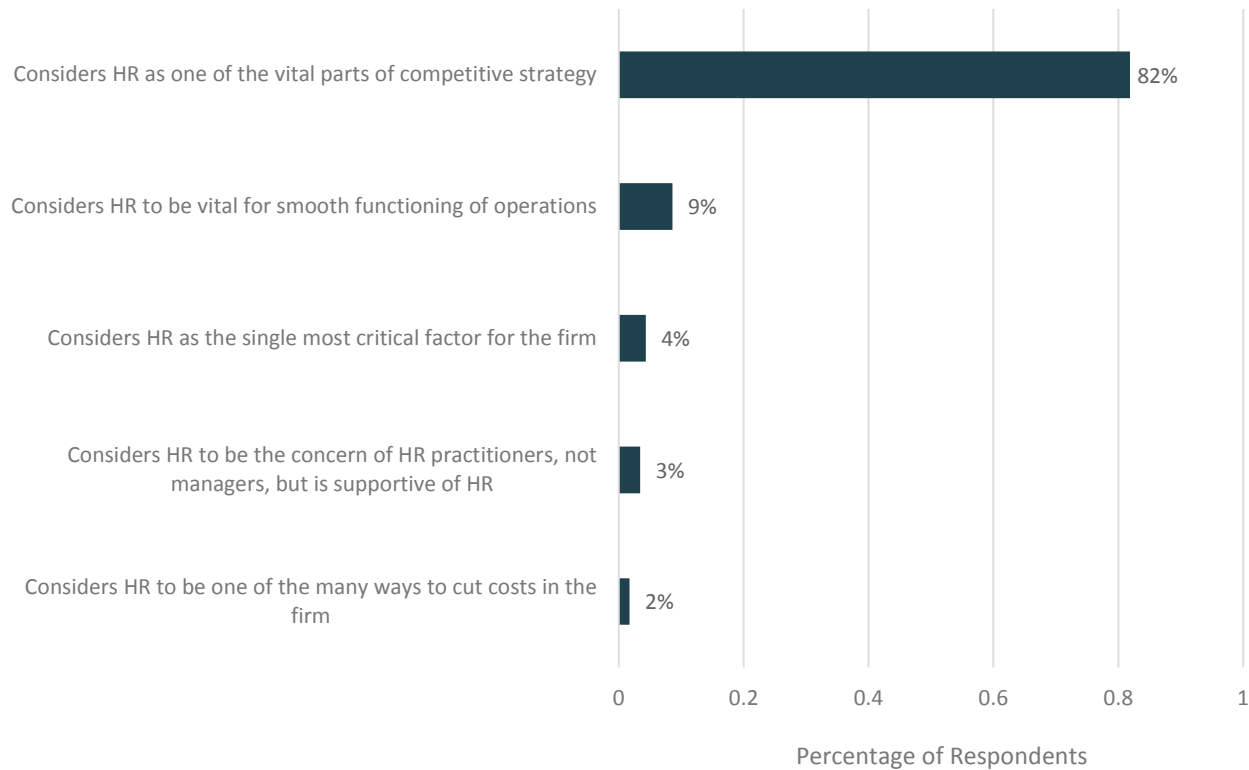
Figure 3. CEO Knowledge of HR Practices



While we did not expect CEOs to be strongly grounded in HR degrees or HR roles as part of their careers, we did expect to see greater variation in the attitudes that CEOs hold about HR as a function. We first asked CHROs to indicate which statement “best describes how your CEO perceives HR and its importance to the firm” and gave six potential answers: (1) considers HR as the single most critical factor for the firm, (2) considers HR as one of the vital parts of competitive strategy, (3) considers HR as vital for smooth functioning of organizations, (4) considers HR as one of the many ways to cut costs in the organization,

(5) considers HR to be the concern of HR practitioners, not managers, but is supportive, and (6) has little concern for the value of HR. As depicted in **Figure 4**, the vast majority (82%) reported that their CEOs consider HR as a vital part of competitive strategy. Only 4% view HR as the single most critical factor. Of the remaining 14%, most (9%) still have a somewhat positive view of the function, seeing it as vital for the smooth functioning of the organization. This suggests that 86% of CEOs have an extremely positive view of the importance of HR.

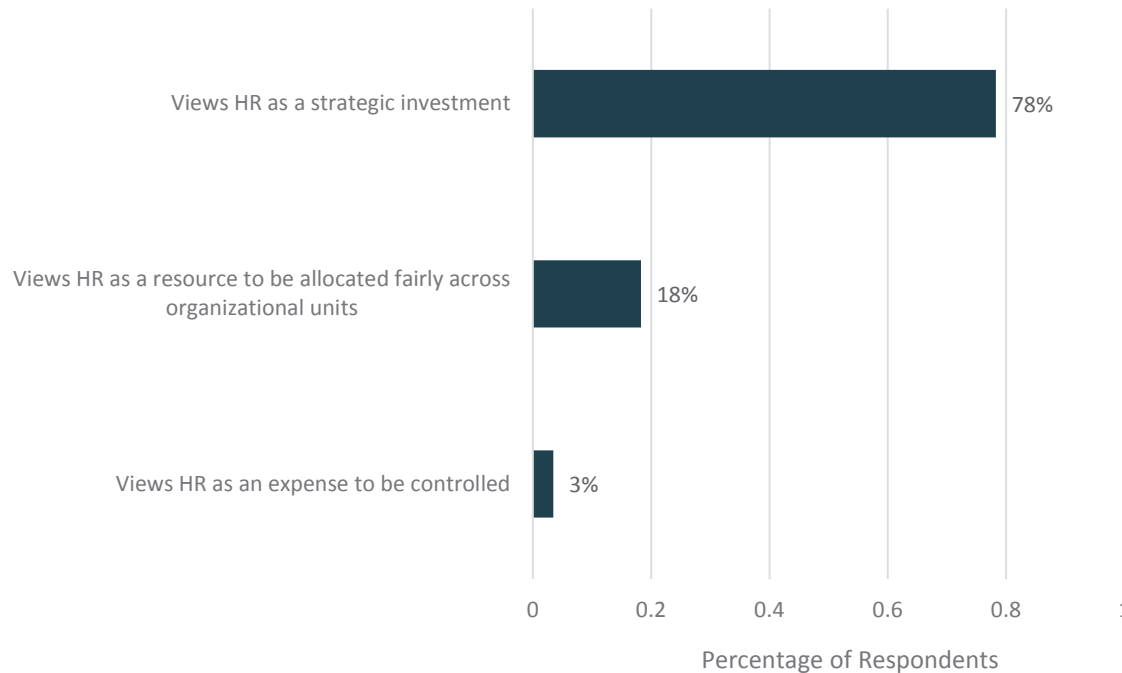
Figure 4. CEO Perceptions of the importance of HR



Because financials are the language of business and a large focus of CEOs, we asked another question that framed HR in terms of its financial cost. We asked CHROs to indicate which of three statements best described how the CEO perceives HR and its importance or role in their firm: (1) views HR as a strategic investment, (2) views HR as a resource to be allocated fairly across organizational units, or (3) views HR as an expense to

be controlled. **Figure 5** shows that only 3% of CHROs reported that their CEOs view HR as an expense. In contrast, 78% view HR as a strategic investment, and 18% view it as a resource to be allocated fairly. While not quite as positive as the previous result, this suggests that CEOs who do not view HR as a strategic investment constitute a small (21%) minority.

Figure 5. CEO Perceptions of the importance of HR



BOD HR EXPERTISE AND SUPPORT

We turn now to our results regarding the BOD's HR expertise and attitude toward HR. Our first question asked CHROs to indicate the percentage of their board members with HR experience ranging from "Not a career HR professional and no experience in HR" to "Career HR professional who achieved a senior level status in HR (CHRO)." Not surprisingly, **Figure 6** shows that the vast majority of board members have zero experience in HR (95%), with 1% falling in different categories (less than a year in HR, did a 2-4 year role in HR, did a longer than 4 year role in HR) and 2% in the career HR professional category.

One need not be a career HR professional or even have experience in HR to have knowledge of HR. The next question tapped both the depth and the breadth of

Figure 6. Board member HR experience

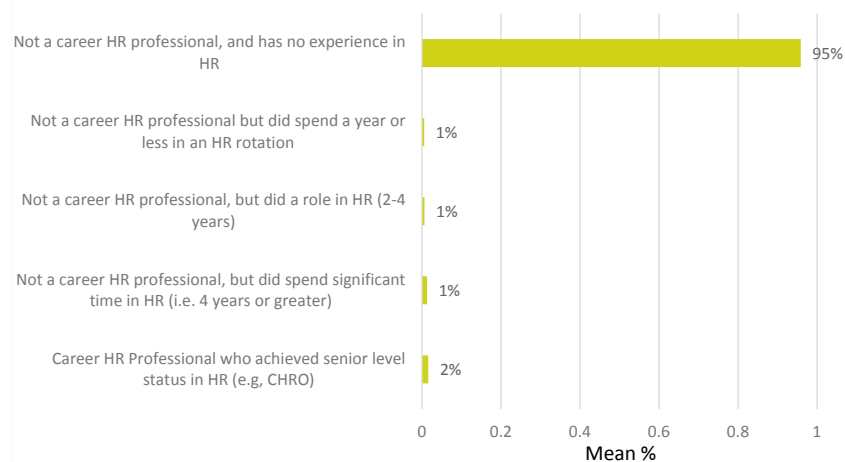
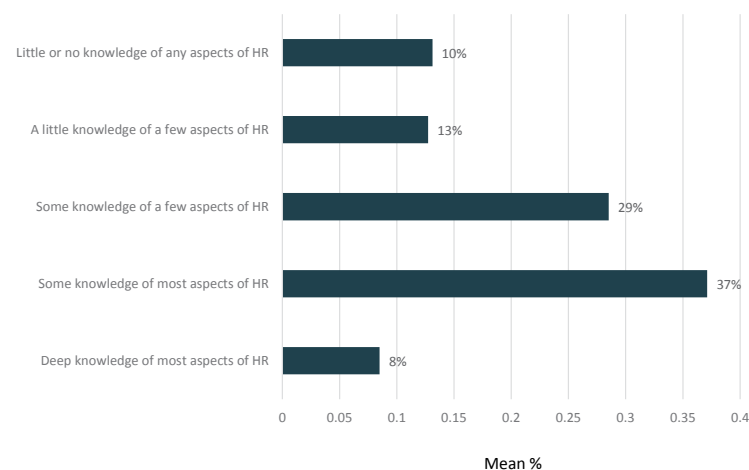
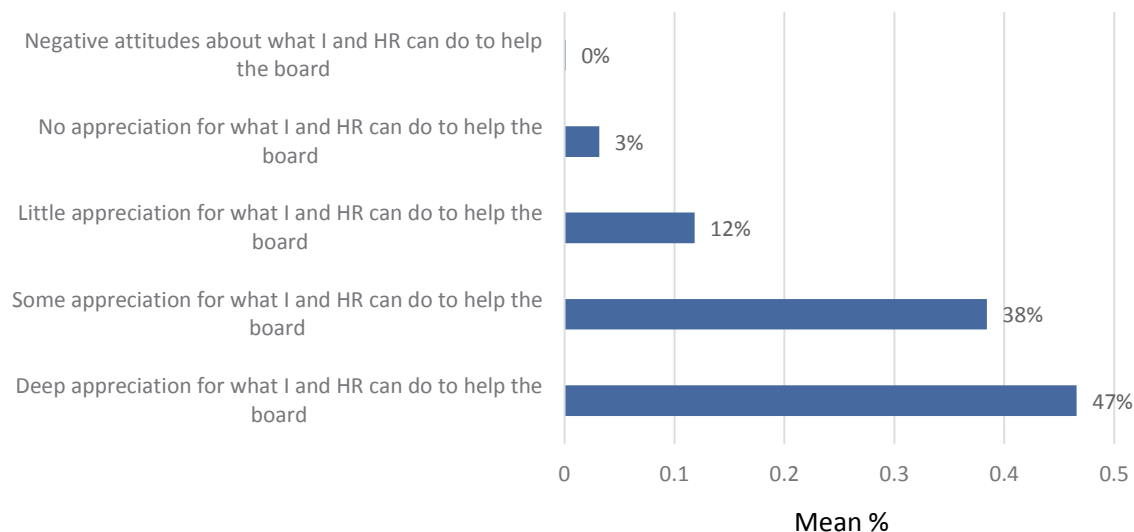


Figure 7. Board member HR expertise



“...the vast majority of board members seem to have a positive view of what the CHRO brings to the board.”

Figure 8. Board member HR appreciation



knowledge of HR. We asked the CHROs to allocate board members based on the level of knowledge they had of HR using the following categories: little or no knowledge of any aspects of HR, a little knowledge of a few aspects of HR, some knowledge of a few aspects of HR, some knowledge of most aspects of HR, and deep knowledge of most aspects of HR. As **Figure 7** shows, these results suggest that few board members lack knowledge of HR. Less than 25% fell in the bottom two categories (“little or no knowledge of HR” or “a little knowledge of a few aspects of HR”), approximately 2/3rds fell in the next two categories (some knowledge of a few or most aspects of HR), and 8% had deep knowledge of most aspects of HR.

Finally, we asked CHROs to allocate their board members into different categorizations regarding their appreciation for what the CHRO/HR can do to help the board using five categories: negative attitudes, no appreciation, little appreciation, some appreciation, or deep appreciation for “what I and HR can do for the board.” As shown in **Figure 8**, 0% had negative attitudes and only 3% were in the no appreciation categories. 47% fell into the deep appreciation category, with 38% having some appreciation. This suggests that the vast majority of board members seem to have a positive view of what the CHRO brings to the board. However, we should note that these are self-ratings, which could be somewhat inflated.

IMPACT OF HR EXPERTISE AND SUPPORT

The second part of this report examines the extent to which the HR expertise or support from both the CEO and the board relates to relevant outcomes. The first two outcomes came from other questions on the survey. Given that board diversity has emerged as an important topic in the popular press, one item asked the extent to which the diversity of the board compares to the goals the board has for the organization's diversity, and the response categories ranged from it falls extremely short to far exceeds.

A second question on the survey asked about the diversity of the CEO succession pool compared to the organization's diversity goals, again ranging from falls extremely short to far exceeds.

The remaining measures consisted of reputational measures for organizations in terms of their appearance on various employer reputational lists. The "Overall" measure was calculated by whether or not a firm appeared on ANY of the following lists: 2018 Fortune's Best Companies to Work For, 2018 Forbes' America's Best Employers, or 2018 Glassdoor's Best Places to Work. The "Diversity" measure was determined by whether

or not a company appeared on any of the following lists: 2017 Military Times' Best Employers for Vets, 2018 Disability Equality Index - Best Place to Work for Disability Inclusion, 2017 Working Mother's Best Companies, 2018 Diversity Inc's Top 50 Companies for Diversity, or 2017 Fortune's Best Workplaces for Diversity. The "Compensation & Benefits" measure was based on whether a company appeared on Indeed's 2018 list of Top-Rated Workplaces for Compensation and Benefits.

On the "predictor" side we calculated two indices. First, we had a "CEO HR Involvement" index that consisted of answers to four of the items discussed above: CEO's knowledge of the firm's HR practices, of competitor firms' HR practices, the extent to which the CEO values HR in the firm, and the extent to which the CEO views HR as a strategic investment. Second, we developed a "Board HR Involvement" index consisting of the three items of board experience in HR, board knowledge of HR and the board's appreciation for CHRO/HR. On all of these, we took the percent of board members that fell in the lowest category (e.g., "zero experience in HR," "no knowledge of HR," and "the board has a negative view of HR") and summed them across all three items.

2018 Fortune's Best Companies to Work For • 2018 Forbes' America's Best Employers • 2018 Glassdoor's Best Places to Work • 2017 Military Times' Best Employers for Vets • 2018 Disability Equality Index – Best Place to Work for Disability Inclusion • 2017 Working Mother's Best Companies • 2018 Diversity Inc's Top 50 Companies for Diversity • 2017 Fortune's Best Workplaces for Diversity • 2018 Indeed's Top-Rated Workplaces for Compensation and Benefits



Table 1 shows the results of these analyses comparing each of our HR Expertise/Support variables with the various outcomes. This table shows the results regarding both the indices and each of the items making up each index.

The first variable in the table refers to the amount of experience the CEO has in HR roles. The second variable is an index of the four items: “CEO’s knowledge of HR policies and practices of the firm,” “CEO’s knowledge of the HR policies and practices of major competitors,” “CEO values HR,” and “CEO views HR as a strategic investment.” As can be seen in this table, the CEO’s HR experience is unrelated to most of these outcomes with the lone exception being a firm’s appearance on Indeed’s Top-Rated Workplaces for Compensation and Benefits list for 2018. However, the CEO’s HR Involvement Index (as well as most of the individual items making up the index) was significantly correlated with internal diversity outcomes (diversity of the CEO succession pool and diversity of the board) and the overall employer reputation of the firm. However, it is unrelated to most of the other employment reputational measures (diversity, and compensation & benefits).

The board measures are not as strongly related to these outcomes as the CEO measures. We first computed a “CHRO Representation” measure if any board member was reported as a “Career HR professional who achieved senior level status in HR (e.g., CHRO).” We, surprisingly, note that 13.7% of the respondents indicated that they had at least one such individual on their board. However, on the negative side, the presence of a current or former CHRO on the board was completely unrelated to any of the outcome measures noted.

We also computed a “Board HR Involvement Index.” Because of the way we asked the question (the percentage of board members that fell into different categories), we were unable to add across categories. Rather we chose the lowest category (little or no experience in, knowledge of, or appreciation for HR) and added them together. Note that this means that we expect negative correlations (e.g., the greater the representation of board members with no experience in, knowledge of, or appreciation for HR, the LESS likely we would expect positive outcomes). As can be seen in this table, the index was negatively correlated with board diversity, the overall employer reputation measure, and the employer diversity reputation measure.



TABLE 1. CORRELATION ANALYSIS FOR CEO AND BOARD HR EXPERTISE

Correlation Analysis for CEO and Board HR Expertise (Significance at the .05 level)

HR Expertise Survey Item	Board Diversity compared to Org. Diversity (Q81)	Internal CEO Succession Diversity (Q23)	Employer Reputation		
			Overall ¹	Diversity ²	Compensation & Benefits ³
CEO HR Expertise					
CEO has prior work experience in HR (Q68)					+
CEO HR Involvement Index⁴	+	+	+		
CEO is knowledgeable about the HR policies & practices of the firm (Q65)	+	+			
CEO is knowledgeable about the HR policies & practices of major competitors (Q66)	+	+	+		
CEO values HR in the firm (Q72)			+		
CEO views HR as a strategic investment (Q73)	+	+	+		
Board HR Expertise					
CHRO Representation⁵					
Board HR Involvement Index⁶	-		-	-	
Board HR Experience – Low ⁷			-		
Board HR Knowledge – Low ⁸	-				
Board Appreciation for CHRO's help - Low ⁹	-			-	

¹ Overall Employer Reputation is determined based on the firm's appearance on any of the following lists: 2018 Fortune Magazine's Best Companies to Work for; 2018 Forbes' Best Employer List; or 2018 Glassdoor's Best Places to Work List.

² Employer Diversity Reputation is determined based on the firm's appearance on any of the following lists: 2017 Military Times Best Employers for Vets List; 2018 Disability Equality Index – Best Place to Work for Disability Inclusion; 2017 Working Mother 100 Best Companies List; 2018 Diversity Inc. Top 50 Companies for Diversity; or 2017 Fortune Magazine's Best Workplaces for Diversity.

³ Employer Compensation & Benefits Reputation is determined based on the firm's appearance on the 2018 Indeed's Top Rated Companies for Compensation & Benefits.

⁴ This is an additive index ($\alpha = .7039$) that consists of the following four items: (1) CEO is knowledgeable about the HR policies & practices of the firm (Q65); (2) CEO is knowledgeable about the HR policies & practices of major competitors (Q66); (3) CEO values HR in the firm (Q72); and (4) CEO views HR as a strategic investment (Q73)

⁵ Of the firms sampled, 13.7% have board members that have achieved senior level status in HR (e.g., CHRO). This item is operationalized as the total percentage of board members indicated by the survey items: 'Career HR Professional who achieved senior level status in HR (e.g., CHRO)' (Q97_1)

⁶ This is an additive index ($\alpha = .3143$) that consists of the following three items: (1) Board HR experience – low (Q97_4 & Q97_5); (2) Board HR knowledge – low (Q98_4 & Q98_5); and (3) Board appreciation for CHRO's help – low (Q99_4 & Q99_5).

⁷ This item is operationalized as the total percentage of board members indicated by the survey items: 'Not a career HR professional but did spend a year or less in an HR rotation'; and 'Not a career HR professional, and has no experience in HR'

⁸ This item is operationalized as the total percentage of board members indicated by the survey items: 'A little knowledge of a few aspects of HR'; and 'Little or no knowledge of any aspects of HR'.

⁹ This item is operationalized as the total percentage of board members indicated by the survey items: 'No appreciation for what I and HR can do to help the board'; and 'Negative attitudes about what I and HR can do to help the board'.

SUMMARY

This survey assessed the level of the CEO's and BOD's experience in, knowledge of, and appreciation for HR. We found that most CEOs seem to be enlightened regarding the value of HR. In addition, the CEO's involvement with HR correlated with the extent to which the company appears on major employer reputational lists such as Fortune's Best Companies to Work For and to both the diversity of the board and of the CEO successor pool. While BOD's also exhibit some value for HR, the relationship between these BOD measures and the diversity and employer reputational measures is not nearly as consistent.

The fact that whether or not BODs had a past or current CHRO did not seem to relate to any of the employer reputational or diversity measures. This may be due to the fact that CHROs have not been well represented on BODs in the past (although the 13.7% in this data was promising), and those that are may not have been on those boards sufficiently long enough to have a measurable impact.



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Many thanks to **Frank I. Mullins, Ph.D.** for his expertise and collaboration in our research.

Dr. Frank I. Mullins is an Associate Professor of Management at the University of Alabama in Huntsville, and the 2019-20 Corey Rosen Fellow with the Institute for the Study of Employee Ownership and Profit Sharing at Rutgers University. He earned a PhD in Business Administration (Human Resource Management emphasis) from Syracuse University. During his doctoral studies, he was an Exchange Scholar at Cornell University in the School of Industrial & Labor Relations and an Elon Pre-Doctoral Fellow at Elon University.

Dr. Mullins' research agenda focuses primarily on the relationship between corporate governance and human resource management (HRM). Specifically, he examines the impact of various corporate governance mechanisms such as monitoring by the board of directors and large shareholders on the use and effectiveness of HRM policies and practices. His research appears in refereed academic publications such as Human Resource Management and Advances in Industrial and Labor Relations. Presently, Dr. Mullins is serving as a Guest Editor for a special issue on employee ownership at Human Resource Management, a leading HRM journal. Prior to his academic career, Dr. Mullins worked in human resources for the IBM Corporation in the areas of compensation, staffing, employee relations, training & development, and diversity.

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The Center for Executive Succession serves as an independent, objective source of knowledge regarding C-suite succession practices. The center provides a forum for corporate leaders to shape the future direction of succession practices, which are increasingly one of the board's top governance priorities. Our partners have the opportunity to contribute to cutting edge research that challenges the status quo and is empirically driven to further success in C-suite succession planning. For more information or to inquire about potential membership, please visit our website or contact us at CES@moore.sc.edu.

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The Darla Moore School of Business at the University of South Carolina is home to a world-class faculty and eight major research centers. It is committed to educating leaders in global business and to playing a central role in the economic growth of the state by bringing the world to South Carolina and South Carolina to the world.

Founded in 1919, the Moore School has a history of innovative educational leadership, blending academic preparation with real-world experience through internships, consulting projects, study abroad programs and entrepreneurial opportunities. The Moore School has grown into a thriving site of academic excellence with an enrollment of more than 5,500 undergraduate students and more than 800 graduate students. The school offers a wide range of programs in nine undergraduate concentrations, seven master's degree and two Ph.D. degrees as well as executive education programs and consulting services to the business community.

In 1998, the school was named for South Carolina native Darla Moore, making the University of South Carolina the first major university to name its business school after a woman.

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