

# The ultimate game: the game of business for HR



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Despite the recent attention-grabbing Harvard Business Review (HBR) headline *It's Time to Blow up HR, I wouldn't send flowers just yet*.

The Human Resources (HR) discipline has always had its fair share of detractors.

Why ?

HR often deals with the finality of situations such as company closures, employee exits and decisions that may be perceived as negative. It plays the role of the ultimate umpire on tough calls and we all know that not everyone loves the umpire's decision, or even the umpire. But if you want a fair game, you need an umpire. You certainly want one that knows the rules, has the courage to make the calls and is not compromised when under pressure from the crowd.

However, I agree with the intent of the HBR article where it points out that the game has changed for HR. Just as the game has changed for business too.

## The playing field

To be effective, HR must understand the full value chain of the business, otherwise they cannot:

- Plan effectively i.e. they won't understand who does what
- Guide and measure productivity i.e. show them what they need to do and to what degree
- Drive the right economic models i.e. how many people, at what rates and for how long
- Ensure a healthy organisation culture i.e. the capacity to judge how hard and fast or slow and steady the organisation needs to act.

To be a good umpire HR needs to understand and articulate the business model, the value chain and the issues in real business terms, but still maintain enough independence to see red flags and not be compromised by being too close to the business.

One also needs to consider the changing risk profile of most businesses – shaped by increasing competition and security concerns – often driven by radically disruptive new technologies. Social media changes the organisational dynamics and brand equation. So risk management is a large part of the HR practitioner's new remit.

Given this, it is critical to have at the board table a person of independent mind who can tell you where the organisation is broken, where it is working well, where it has bottle necks or where it is at risk of breaking. It is like having a canary in a coal mine.

### LBW, googlies and spit balls

Most well run and established companies have a multitude of protective policies in place as part of an overarching compliance program. Yet many successful companies continue to fail despite those policies. A recent example is Volkswagen which will no doubt command the MBA case study space for years to come. However, whatever may be written, one conclusion is clear. As the Executive Director of the Ethics Centre, Dr Simon Longstaff recently observed, the catastrophe for Volkswagen is the result of “divorcing technical mastery from ethical restraint”.

That gap can be explained by the difference between rule-based organisations and values or principle-based organisations. It is the gap between what you have to do and what you should do. The law currently cannot keep up with social change and innovation which means that good judgement and good decision making must fill that gap.

Big headline-grabbing company failures are often less attributed to financial failure than they are to poor leadership, bad decisions, a cultural disaster, or lack of oversight.

HR plays a lead role in influencing good leadership and good governance to ensure a responsible, thoughtful and insightful organisation is in place.

Governance has its need for rules. However, it is also grounded in psychology and biases are the blinkers that can blind us all.

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Circumstances like these are leading investors to apply increasing pressure on organisations to prove their ethical merit. The growth in Total Assets under Management (TAUM) through responsible investment funds grew over 500 per cent over the last three years. Such concerns are becoming mainstream<sup>1</sup>.

Responsible investors look beyond financial risk. They acknowledge that investment value is driven by many issues off the balance sheet including company culture, management, brand value, good governance, quality control, pollution control, occupational health and safety, good human resources practices, stakeholder management and more – all of which are ultimately linked to and shaped by a corporation’s ethics.

Despite all those similar cookie cutter policies and codes that make up most compliance programs, some companies sail through and some don’t make it. Why? There is a gap.

Did the leaders at VW think that it paid to ignore their own code of ethics (motivational blindness)?

Did they think that they were safe by delegating the work to a third party to remove the onus (indirect blindness)?

Did they surround themselves with followers who merely agreed with them and did not challenge their decisions and direction (confirmational bias)?

Codes and rules are the ‘hardware’ around governance. However, the quality of the ‘software’ is equally critical. How those rules are applied to create a healthy climate, one where individuals can challenge the system and each other without threat or compromise, is the key. Rules alone will not keep individuals or companies safe.

Developing a strong ethical quotient amongst leaders (indeed across an entire organisation) is critical.

<sup>1</sup> [http://responsibleinvestment.org/wp-content/uploads/2015/08/2015\\_Benchmark\\_Report\\_Aust\\_FINAL.pdf](http://responsibleinvestment.org/wp-content/uploads/2015/08/2015_Benchmark_Report_Aust_FINAL.pdf)

CHROs are not there merely to follow orders from above; they also need to point out strategies that may have negative human resource or reputational repercussions for the company. This may at times need to draw on a strong sense of independence to raise issues directly with the board.

The true test of future CHROs will be that of moral courage. This is a test of strength and of intellect. They need to be a role model and know how to identify and deal with ethical issues and educate others on the moral perspective to ensure they can do the same.

### Avoiding a strike

The last decade has seen a plethora of regulation applied as a result of the GFC including the war on executive remuneration with the ‘say on pay’ trend and the inclusion of ‘No’ votes around executive remuneration as the ultimate measure of shareholder sentiment.

Executive remuneration has become increasingly complex and risky. Due to this shift, HR landed fairly and squarely in the middle of the board room. It solved the final question for some of what the function can formally contribute at this level beyond ‘symbolic capital’. If anyone has experienced the nail biting experience of the AGM exec rem vote, then they know what it means to have good HR representation in executive remuneration. For some in HR that requires new skills, competencies and education.

### Scores on the board and a home run

Women remain under represented within senior ranks. Despite years of investment and many initiatives, female participation within C Suite and Key Management Personnel (KMP) in Australia remains low compared to other countries.

Less than 10 per cent of ASX 500 company KMPs are women.

KMP categories with representation greater than 10 per cent of females are occupations with a higher proportion of women graduates for example HR, law, and public relations.

At the current count amongst ASX 500 companies, HR has the greatest number of female executives represented and also a higher number of female executives versus male executives, currently at 56 per cent women.

HR is held accountable for the development of C Suite and CEO talent and research conducted over a number of years by Ellie Filler, senior client partner at Korn Ferry and Dave Ulrich, professor at University of Michigan, reveals striking similarities in competencies, personal traits and leadership styles of CEOs and CHROs. This reinforces the potential and necessity of HR.

### Umpire accreditation

If you want to play, play fairly, and win, then you want a professional, well-trained umpire who is certified to make those early tough calls without compromise.

There is no question that as the game of business continues to evolve with new rules, umpire retraining is required. A professional standards certification process has been activated by the Australian Human Resource Institute (AHRI) to ensure that HR Practitioners can meet the necessary standards required for the profession.

HR is increasingly playing a professional role at the C Suite and board level. Their remit is changing and the need for boards to have a professional umpire on the field is going to become even more critical.

