

tomorrow's  
company



# THE BOARDROOM AND HR'S ROLE

with SIR JOHN EGAN

20 OCTOBER 2011

**PART 1 OF A SERIES OF  
ROUNDTABLE REPORTS**



Tomorrow's adaptive organisation

A partnership exploring boardroom challenges and the shaping role HR can play

# WELCOME

Welcome to the first report from a series of roundtable dialogues that the CIPD and Tomorrow's Company are hosting to explore issues around how HR leaders can work with leaders and boardrooms to help shape tomorrow's sustainable and adaptable organisations.

The roundtables will examine these issues through a number of different lenses. The dialogues include a variety of senior leaders as well as HR professionals to bring a variety of expertise and opinions to the debate.

Through these roundtables and related provocations we want to build on the insights into achieving long-term organisational success that the CIPD and Tomorrow's Company have already developed from the CIPD's flagship research programmes, **Shaping the Future** and **Next Generation HR** and from Tomorrow's Company's **Tomorrow's Global Talent**.

We are heading towards a whole series of new challenges for the corporate world. The economic situation remains uncertain: business models and measures of performance are changing; sustainability issues move to the top of the agenda; new social media are changing relationships with customers; and the centre of gravity in the global economy is shifting to the East.

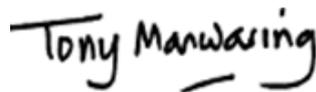
At the same time, there is a crisis of trust in leaders that extends beyond bankers and politicians to all leaders. And organisations are increasingly recognising that behaviours such as integrity and authenticity along with an enabling culture are key drivers of business success in the boardroom and beyond. We believe that HR professionals are in a unique position to work with leaders to help shape the desired culture and behaviours to achieve sustainable and adaptable organisations.

We are delighted that Sir John Egan agreed to be our first speaker. Sir John Egan is former CEO of Jaguar and BAA, and is currently a chancellor of Coventry University as well as an investor on a number of company boards. He led the discussion with a humorous and detailed account of his own professional experience working with HR over his diverse career. A summary of his speech is included in this report, along with the main themes that were subsequently discussed by the attendees.

Look out for further reports in this series over the coming months. We'd be pleased to hear your thoughts on these issues, so please get in contact if you would like to contribute to the debate.



**Stephanie Bird**  
Director of HR Capability, CIPD



**Tony Manwaring**  
Chief Executive, Tomorrow's Company



## ABOUT SIR JOHN EGAN

Sir John is a non-executive director of Governance for Owners Group LLP. Sir John was knighted in the Queen's Birthday Honours List in 1986. He is a deputy lieutenant of the County of Warwickshire and, since September 2007, chancellor of Coventry University. He was previously chairman of Inchcape plc and Harrison Lovegrove & Co Ltd.

Sir John worked in the motor industry until 1990 at General Motors, Massey Ferguson and British Leyland, rising to become chairman and chief executive of Jaguar plc. He was chief executive of BAA plc from 1990 to 1999, chairman of MEPC from 1998 to 2000, chairman of QinetiQ Group plc from 2000 to 2002 and chairman of Severn Trent plc from 2005 to 2010.

He was also president of the Confederation of British Industry from 2002 to 2004.

## NOTABLE QUOTES

**'Companies need a culture of performance and integrity to succeed. Boards need to know whether they are creating a positive culture. If they don't create one, they will get a default culture that they cannot predict.'**

'The chair is the creator of the board – if the board is not working well, the chair needs to change it and bring in the right people with the right capabilities.'

**'HR is not about building a large department – it is about being a critical adviser with special skills and know-how. It is the first line of support to the chief executive in helping to transform the company.'**

'HR needs to have insight and judgement as to how the company works – they need to understand the "tempo" of the organisation, how it works, how teams and individuals behave, what makes for good performance and how to achieve it.'

**'Stopping doing the wrong things is as important as starting to do the right things.'**

# Views from Sir John Egan

## CREATING A HIGH-PERFORMANCE BOARD

Sir John opened by setting out his views of the respective roles of a high-performance board.

The chief executive runs the company and is at the helm of the ship, is the chief architect of the business strategy and leads the executive management team, as well as all those who report to the executive board. Characteristically, he or she is often bolder in their actions than other board members, and the chair is content knowing that the ship is being steered competently.

The job of the chair is to create the board. The chair is the team leader of a disparate group that needs to be capable and confident to challenge each other's viewpoints, think differently and widely about the company and its future and has the critical skills for the industry. If the chair is not satisfied with the composition of the board, ultimately it is his or her responsibility to get the right people who will set a culture in the boardroom that translates to the company as a whole.

It is important for boards to know the business well. It is the chair's role to understand the possible risks and bring these to the attention of the board. Sir John believes that they should try harder than anyone to flag these risks to the chief executive and members of the board. It is then about getting the combined talent of the board to consider the business strategy and make sure it is in line with the company's resources. And all board members have a duty to raise issues of concern with the chief executive and must have the courage to face up to problems.

There are times when the board may require an outsider's expertise to help with particular decisions that are hard to resolve. This is where the non-executive directors are important – they often are able to bring another dimension to the boardroom and can set high standards. If an *'NED is world class they are able to help you see what the company is doing best and how. As a chief executive it is advantageous to take note of your non-executives' critical skill sets and, in times of future challenge and strain, call upon them for this expertise'*.

Between them, the non-executive directors should understand *'the critical skills of the company and see how good these skills are compared with the best in the world. If things are going wrong, they should be brave enough and tough-minded enough'* to confront the problems head on. They bring a refreshing diversity to the team and are in a position to challenge the executive team in a way that is deemed acceptable, gently feeding in advice with *'a gentle but firm touch, rather than with ego'*.

**In BAA the executive members of the board trained first-line supervisors in groups of 10 to 15 people. Through this the board gained valuable insights into what was working well and what the real problems were.**

# THE CHANGING ROLE OF HR

Sir John began by describing HR in a historical context – best described as a *'huge machine with huge influence'* that played a role in disciplining, hiring and firing staff in a ruthless manner, planning succession and attempting to *'train anything and everything that moved'*. HR's influence stopped at board level – the chair and the chief executive would certainly not have taken advice from HR as to whom they should elect to the board, *'Human resources ran the company, they did not run the board'*.

Sir John noted that HR leaders are now advisers to the board, equipped with special skills and knowledge and understanding of how to engage the workforce, form judgements about how individuals, teams and the company perform to be able to bring any problems to the board's attention. They therefore need to have a firm understanding of how performance can be achieved. They need to have insight and judgement as to how the company works – they need to understand the 'tempo' of the organisation, how it works, how teams and individuals behave, what makes for good performance and how to achieve it.

In order for HR to prosper on the board they must also have a firm understanding that the balance sheets are the *'lingua franca'* of the boardroom. It is essential for HR directors to understand the financial aspects of the company.

Now more than ever a company is required to act with integrity and must continue to perform at a consistently high level. It is the job of HR to report on this performance to the board, demonstrating that a positive working culture is being achieved. If a positive culture is not achieved, the danger is that a default culture will emerge that the board has no control over and is often unaware exists. Default cultures are unpredictable and impact negatively on business performance. People will feel no

accountability for their actions and their behaviour will not be aligned with the values of the company.

The importance of having the right culture has been highlighted by the financial crisis. Sir John was involved in a committee led by the Financial Reporting Council (FRC) to try to unearth the reasons why some financial institutions had failed and others had managed to survive. The committee discovered that successful companies maintained performance standards and created firm strategies for a positive culture of performance and integrity to evolve among the staff. This helps companies to be shielded from the unethical behaviours that saw many financial institutions fail. The resultant *Guidance on board effectiveness*, issued by the FRC in March 2011, has reiterated that an honest culture is paramount to sustained success and it is the role of the boards to have a clear vision and mandate for creating and sustaining value.

Sir John's overall conclusion was that in his experience HR did not require a permanent position in the boardroom to be influential. It is acknowledged that they hold invaluable skill sets and knowledge surrounding employee engagement and the retention and development of talent that are ever more important in today's business environments. They are the first line of support to the chief executive in helping to transform the company. Their impact is vital to the company's success due to their knowledge of group dynamics and their role in creating successful teams with a positive culture.

***'An effective board develops and promotes its collective vision of the company's purpose, its culture, its values and the behaviours it wishes to promote in conducting its business.'*** *Guidance on Board Effectiveness, Financial Reporting Council, March 2011*

## ROUNDTABLE DISCUSSION

The roundtable discussion was held under the Chatham House Rule, so it is not possible to ascribe comments to individuals. However, below we reflect on responses to a number of questions that were raised, and which we have grouped under themes.

### Importance of culture

*'It cannot be understated the enormous task that companies have at hand when attempting to create a new culture. It takes strong leadership from the executive team to set the tone for the new culture to emerge as well as time for it to mature. Building a positive culture is no quick feat and the process cannot solely rely on the top-down influence of executive teams but must also involve a significant bottom-up process that upwardly influences the process.'*

*'The problem is companies are too focused on finances and not enough emphasis is being placed on behaviour. The future of business lies with the people within the organisations. However the majority of board members do not understand the "people stuff". They struggle to see that these two areas are co-dependent and in order to prosper financially they need to understand how people behave and, more importantly, how this can translate into better performance. Executive teams are now asking for lessons in building strong cultures. However, so many fall at the first hurdle because they fail to understand what culture really is and how the role of leadership has to change.'*

*'When a new chair comes "parachuting" into an organisation and there is a subsequent problem with the way they operate, leading to the conclusion that they are not the right person for the job, there is very little room for manoeuvre. It is difficult to remove them from the equation. If the chair isn't suitable, the outcome will ultimately not be a good one.'*

*'People are intelligent and will oppose schemes that appear to be taking shortcuts in an attempt to fast track change to create a desired culture. Both leadership and authenticity are required in the process.'*

### Non-executives as assets

*'The senior independent director (SID) is as important a role as the chair or chief executive – they can be the "coach to the family".'*

*'There are lessons that could be learned from the armed forces. Many people in the armed forces are strategic, trained leaders and effective at bringing about change – characteristics that boards of today are lacking. Senior people from the forces could be an asset to the boardroom in the same way that an NED is seen as an asset to the chief executive.'*

### Board composition including HR's role

*'There is a danger that we can get too hung up on whether HR should be on the board. There are many ways in which HR can influence the organisation and the board – helping guide the chief executive in terms of their stewardship, helping to educate the board to live the company's values.'*

*'To have a successful board there are certain characteristics that are needed among members. The board would benefit from a variety of personality types to ensure that not everyone in the board is "shooting from the hip". Good chief executives will ensure they have a wide variety of mindsets around them, including an NED to act as a mentor providing advice when required.'*

## ATTENDEES

**Stephen Aguilar-Millan,**

Director of Research, European Futures Observatory

**Patrick Brodie,**

Partner, RPC

**Charles Gray,**

Sales Director, Unipart Group

**Tania Howarth,**

CIO and HR Director, Birds Eye Limited

**John Knights,**

Chairman, LeaderShape

**Robert Marshall,**

Chief Operating Officer, Marshall Group

**Judith Moeckell,**

Global Head of Talent, OD and Leadership Development, National Grid

**Prof. Eddie Obeng,**

Founder Director, Pentacle -The Virtual Business School

**Alan O'Halloran,**

Director of Finance, LRN

**Alex Rickard,**

Director of HR, Towry

**Julia Tyson,**

HR Director, Wates Group

**From the CIPD**

**Stephanie Bird,** Director of HR Capability

**Vanessa Robinson,** Head of HR Practice Development

**From Tomorrow's Company**

**Pat Cleverly,** Director of Research, Strategy and Policy

**Stuart Duncan,** Membership Volunteer

**Tony Manwaring,** Chief Executive Officer

## JOIN THE DEBATE

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[www.cipd.co.uk/tomorrowsadaptiveorganisation](http://www.cipd.co.uk/tomorrowsadaptiveorganisation)

## DATES FOR YOUR DIARY

**The other roundtables in the series are:**

**24 November 2011** with Ian Powell, chairman of PwC UK (a summary of the discussion coming soon)

**24 January 2012** with Paul Drechsler, CEO of Wates Group

**29 March 2012** with Andy Wood, CEO of Adnams

**24 May 2012** with Richard Emerton and Anna Penfold of Korn/Ferry

**29 May 2012** with Lady Susan Rice, MD of Lloyds Banking Group Scotland.

# ABOUT THE CIPD

The Chartered Institute of Personnel and Development (CIPD) is Europe's largest HR and development professional body. As an internationally recognised brand with more than 135,000 members across 120 countries, we pride ourselves on supporting and developing those responsible for the management and development of people within organisations.

**[cipd.co.uk](http://cipd.co.uk)**

Follow the CIPD on Twitter at: **[twitter.com/cipd](https://twitter.com/cipd)**

# ABOUT TOMORROW'S COMPANY

Tomorrow's Company is the agenda-setting 'think and do' tank which looks at the role of business and how to achieve enduring business success. We focus on strong relationships, clear purpose and values as the foundation of effective leadership and governance.

In our programmes we challenge business leaders around the world to work in dialogue with others to tackle the toughest issues. We promote systemic solutions, working across boundaries between business, investors, government and society.

We believe that business can and must be a 'force for good'. This in turn requires a strengthening of stewardship by shareholders in partnership with boards of companies.

We argue that the Age of Sustainability has begun, and that in the future success and value-creation will come from recognising the 'triple context' – the links between the economic, social and environmental sub-systems on which we all depend, and the opportunities this brings.

**[www.tomorrowcompany.com](http://www.tomorrowcompany.com)** and **[www.forceforgood.com](http://www.forceforgood.com)**

Follow Tony Manwaring on Twitter at: **[www.twitter.com/tonymanwaring](https://www.twitter.com/tonymanwaring)**

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Chartered Institute of Personnel and Development  
151 The Broadway London SW19 1JQ  
Tel: 020 8612 6200 Fax: 020 8612 6201  
Email: [cipd@cipd.co.uk](mailto:cipd@cipd.co.uk) Website: [www.cipd.co.uk](http://www.cipd.co.uk)

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company

Tomorrow's Company  
Centre for Tomorrow's Company  
Charity registration number 1055908.  
Registered office: Samuel House  
6 St Alban's Street, London SW1Y 4SQ