Point of View

Why HR Governance Matters

Managing the HR Function for Superior Performance

Why HR Governance Matters

A wide-ranging set of influences has propelled corporate governance issues out of the boardroom and onto the desktops of business executives throughout the organization. HR executives face significant challenges, including managing a global function, realizing returns on technology, accelerating the pace of organizational change, leveraging human capital strategically, and reforming management practices in response to proliferating regulation.

Historically, most HR leaders have not been challenged to think formally about functional governance issues, so they operate with an implicit model. In those few instances where governance is made explicit, it is usually synonymous with compliance and does not address the central issue – improving leadership and management of a function that invests an average of 36 percent of operating revenue in compensation, health care, retirement, training, and other human capital investments.[1]

With over a third of revenue at stake, it's time for HR leaders to develop an explicit model for functional governance – and to communicate the model proactively to involved stakeholders. This paper suggests how to formalize HR governance and shows how explicit governance can help HR executives uncover significant opportunities to improve functional performance and contribution.

The short history of HR governance

The concept of corporate governance arose from a confluence of legal, political, and economic ideas. Generally speaking, formal debates of the past 50 years have centered on the question of whether an organization can manage itself without regulation – and if not, who should do the regulating.

Until recently, US regulation of corporate governance has come from state statutes and stock exchange rules. But in 2002, federal lawmakers usurped the field when they passed the Sarbanes-Oxley Act. For HR executives, Sarbanes-Oxley has many implications, including personal, legal accountability for the reliability of reporting and decision making for benefits plans and programs. But it may be shortsighted to limit the scope of this far-reaching regulation to the single activity of effective plan governance.

The term "HR governance" may have been conceived in the mid-'90s along with HR's widespread efforts to transform the function from an administrator into a business partner. Sarbanes-Oxley is another important motivation for HR executives to examine functional operating models with the goal of improving business contribution.

Sarbanes-Oxley is now being considered as a model for corporate governance in Canada and the EU. So the most interesting chapter in the history of HR governance is just now being written.

HR Governance: A Definition and Key Elements

Because "HR governance" is an emerging organizational practice, there is currently no commonly acknowledged definition. Mercer's definition identifies the responsibilities effective governance fulfills as well as the opportunities it creates:
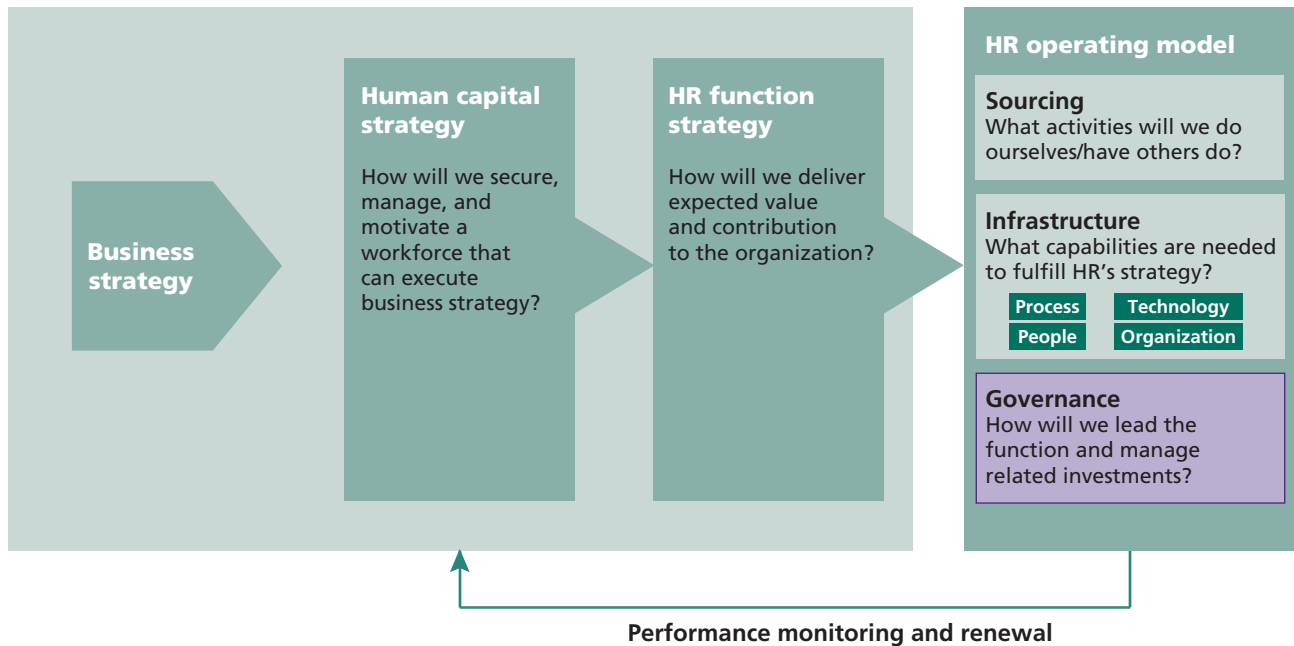
HR governance is the act of leading the HR function and managing related investments to:

- optimize performance of the organization's human capital assets;

- fulfill fiduciary and financial responsibilities;

- mitigate enterprise HR risk;

- align the function's priorities with those of the business; and

- enable HR executive decision making.

Governance is not a strategic objective. It is a systematic approach to management that enables the function to achieve strategic and operational objectives. Exhibit 1 illustrates the relationship among business, human capital, and HR functional strategies that influence HR's operating model and inform its governance system.

Exhibit 1
How HR governance aligns with organizational strategies

Business strategy

Human capital strategy
How will we secure, manage, and motivate a workforce that can execute business strategy?

HR function strategy
How will we deliver expected value and contribution to the organization?

HR operating model

Sourcing
What activities will we do ourselves/have others do?

Infrastructure
What capabilities are needed to fulfill HR's strategy?

Process | Technology
People | Organization

Governance
How will we lead the function and manage related investments?

Performance monitoring and renewal

The elements of governance

Mercer defines five core elements in an HR function's system of governance. These elements enable functional leaders to manage areas of focus and accountability effectively. While distinct from each other, these elements are interdependent, meaning that each one must be individually articulated and developed to govern explicitly and effectively.

Structure and accountability outline the design of the guiding group (the council) itself as well as its relationships with involved stakeholders. A charter document usually articulates the council's areas of focus based on strategic, operational, and functional accountabilities. The charter may also address roles, meeting structures, and protocols.

Effective councils link strongly to structure and refer to the personal, interpersonal, and group effectiveness of the council and other involved stakeholders.

Philosophy and operating principles describe, at a minimum, the function's risk tolerance, approach to delegating authority, and expected level of management autonomy at business unit or geographic levels.

Core management activities include HR strategy development, business planning, oversight of rewards plans and programs, HR resource allocation, and HR staff development/leadership succession. Through these core management activities, the council sets direction and priorities, ensures effective execution over time, and enforces internal controls.

Performance monitoring refers to the framework and metrics used to evaluate and communicate the function's operational effectiveness, compliance, and contribution to business success.

Exhibit 2
Elements of effective HR governance

HR Functional Governance

| Structure and Accountability | Effective Councils | Philosophy and Operating Principles | Core Management Activities | Performance Monitoring |

Creating a Structure for HR Governance

Effective HR council structures are both formal and flexible – formal enough to optimize information gathering and decision making, yet flexible enough to allow council members to complete the real work of leading and managing the function.

In many organizations, HR functional decision making falls to the chief HR executive alone. Creating an explicit structure for HR governance is a way to enhance decision making using the diverse insights and talents of the organization's most experienced professionals to think, decide, and respond. With each decision, a capable council communicates priorities back to the organization, balancing both strategic and operational needs.

Why HR governance matters

The HR executive believed that a governing council was the only "responsible, realistic, and effective way to integrate and align HR across the organization."

Councils serve as the formal link between HR and the business. But unlike many corporate boards, HR councils rarely limit their role to oversight and approval. As HR business partners, council members are actively engaged in the function's core management activities and are accountable for operational results.

The case of a regional health care provider illustrates clearly how HR executives can establish a workable HR governance structure to enhance functional and organizational performance.

Case in point: Structuring an HR council to accelerate change

The health care provider's chief HR executive had redesigned the function to improve core service delivery to 30,000 people in over 20 diverse businesses across multiple geographic regions. "Centers of expertise" were created to manage staffing, talent management, and rewards programs and to improve the quality of advice provided to the regional HR teams. Both corporate and field roles were revised to emphasize alignment with business units.

The team of senior staff that undertook the redesign was, in the mind of the chief HR executive, "the primary reason the project succeeded." The team was carefully assembled from both corporate and regional HR staff from the organization's various businesses. Team members possessed some common attributes: HR experience and technical skills, team skills, and the ability to influence peers.

As the implementation stage approached, the chief HR executive recognized the huge investment risks associated with change and the ongoing need to support the business. And he decided that he should not be the only one to guide implementation of the new HR business model. He invited the redesign team to form a permanent HR council that could engage, influence, and integrate regional leadership under the new model without increasing the perceived level of command and control.

"We weren't thinking about an HR council during the redesign project," said the executive. "But when we got to implementation, we knew that this group had the knowledge, ownership, and credibility to act on behalf of their peers as we transformed the function."

The new HR council identified five areas of focus, reflecting the transformed function's new delivery strategy and accountabilities:

- talent management,
- recruiting and retention,
- total rewards,
- HR service delivery, and
- organizational productivity improvement.

Each focus area was supported by its own project team, staffed by employees with essential technical expertise, and led by council members. When appropriate, the council invited colleagues from finance and technology to join. These partners from outside HR strengthened team connections to key stakeholder groups, helping to align HR projects with other organizational initiatives and to create buy-in for HR resource requests. Exhibit 3 illustrates the health care organization's HR governance structure.

From the chief HR executive's perspective, the new council structure not only enabled him to gain input and support for change, but also "clarified who in the organization can say yes or no to a project or decision. The council faithfully represented the perspectives of HR peers without having to include all the peers in the process." Each of the 11 council members was formally assigned responsibility for meeting with HR leaders from businesses that were not directly repre-

sented on the council. Their job was to ensure that these leaders were informed about council activities and their viewpoints were represented in council work.

In an organization striving for process excellence, the act of clarifying and prioritizing the council's areas of focus enabled it to temporarily set aside discussions of "what was important" so members could agree on "how to get the important things done." The council explicitly defined:

- its composition, responsibilities, and operating tenets;

- how to engage other HR leaders and business stakeholders appropriately in HR governance;

- how to assess the council's effectiveness and alignment with the business; and

- its meeting structure, agenda, and protocols.

Exhibit 3
The HR council's structure at a health care organization

Executive committee
Approval

Board HR committee ← Endorsement — Alignment, validation → **IT strategy and implementation teams**

HR strategic council
Project integration

Talent management
- Leadership development
- Organizational development
- Performance management

Productivity
- Continuous improvement
- Operational benchmarking

Recruiting and retention
- Employer of choice
  – Executive
  – Staff
  – Locally

HR service delivery
- Technology
- Process
- Structure
- People

Total rewards
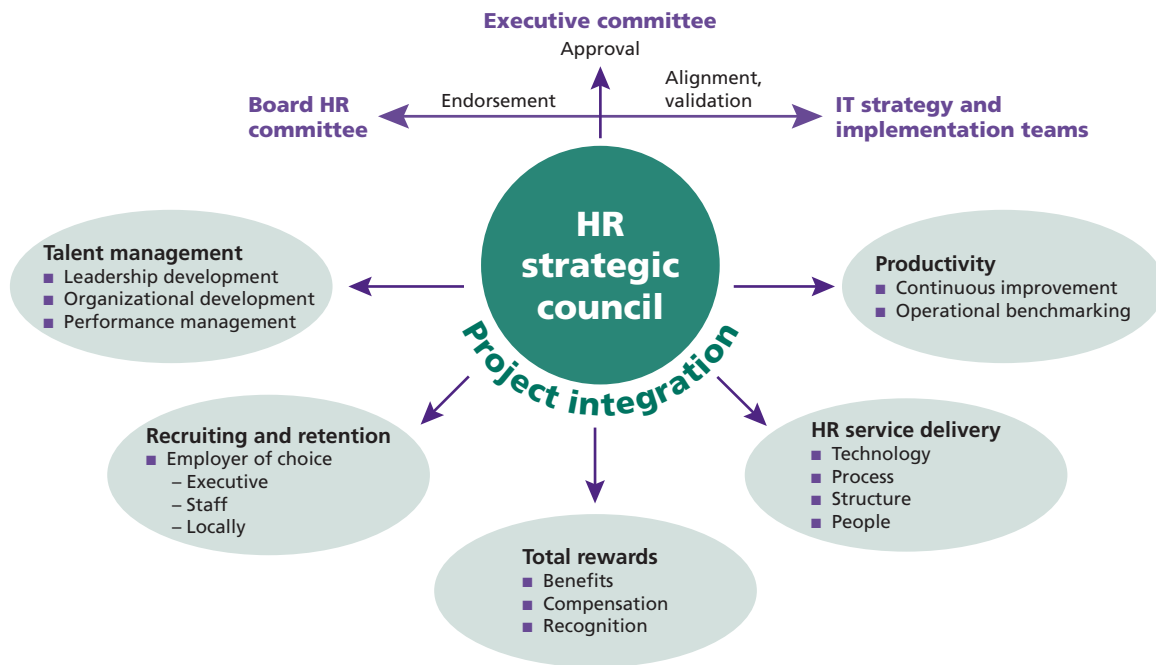- Benefits
- Compensation
- Recognition

Exhibit 4 shows an excerpt of the framework the council used.

The council's decisions about structure and accountabilities reflected the members' belief that council success equaled successful implementation of the new operating model. So meetings were frequent, with agendas centering on implementation issues such as project planning, resource requirements, and budget reviews. Council members were expected to direct and execute projects. To increase council productivity, the project teams adopted a common project management process, creating a common working language and increasing the rigor with which they managed toward milestones and deliverables.

This investment of time in defining how the council would complete its work enabled the council to accelerate implementation of the new HR organization and the delivery of several new employee programs.

For example, the council acted as strategy/design consultant and sounding board to an executive committee (including the CEO and several divisional leaders chosen by the board of directors) that was consolidating multiple employee health care plans into one. At a health care organization, these issues can become highly charged, slowing decision making. The HR council's ability to consider and respond to the executive committee's proposals collectively reduced the time required to get buy-in, both from the business leaders who would have to support the new plan and from the HR organization that would have to implement it.

Moreover, the HR function's approach to establishing its governance structure and process inspired the corporate board to revisit their own structure and work processes – a significant indicator of HR's growing status as a strategic business partner in the organization.

Exhibit 4
Considering council structure, behavior, and protocols

Structure, roles, and accountability	Council effectiveness	Meeting structure and protocols
■ Which areas of focus need the council's attention?	■ How will we assess the effectiveness of our team and subteams?	■ Where and when will we meet?
■ Given the areas of focus, who best serves on the council?	■ How will we determine whether the HR governance process is achieving its original intent?	■ What is the basic, standing structure of our agenda?
■ Who is directly involved in working on each focus area, and what are their roles?	■ What mechanism will we use to collect opinions about the effectiveness of HR governance?	■ What are the "rules of the road"?
■ What is the primary charter of the council and committees?		■ What decision-making process do we use? Who makes what decisions?
■ What are the formal mechanisms for involving other HR leaders/managers and business stakeholders in HR governance activities?		■ What issues do we address in every meeting? Regularly? Annually?
		■ Who manages the agenda and minutes before, during, and after meetings?

Source: adapted from research on corporate boards by Mercer Delta Consulting

Structured by strategic focus area

- Membership contained within the council
- Utilizing subteams from HR where appropriate to support initiatives

HR council

- **Strategy** — Initiative 1, 2, 3
- **M&A divestitures**
- **Organization architecture**
- **Culture and values**
- **Operational excellence** — Reengineering
- **Talent** — HR strategy
- **Resizing**

Council structure and composition

The similarities between corporate and HR governance structures are apparent. Both corporate boards and HR councils need to consider how to divide responsibility and to what degree they will involve others outside the team.

Each of the structures illustrated here reflects a different strategic focus and degree of inclusiveness of HR staff and professionals from outside HR.

Finding the structure that works best depends on the function's strategy and goals, the degree of support and buy-in for HR initiatives both within and outside the function, and the expectations of the organization's business leadership.
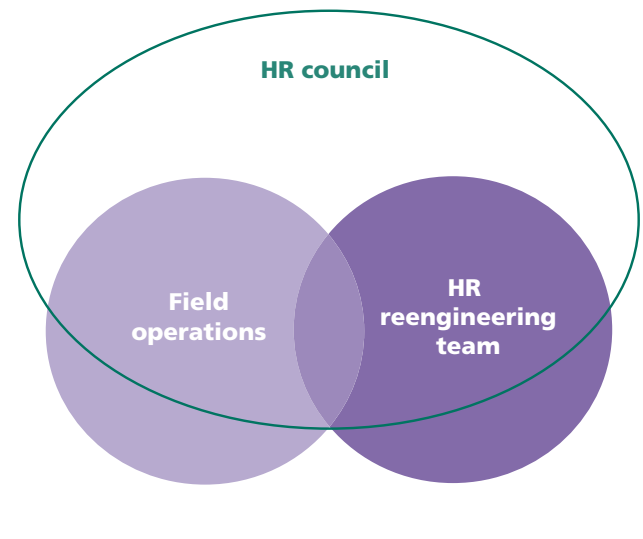
Structured by role

- Membership contained within the council

HR council

- **Field operations**
- **Centers of excellence**
- **Executive committee**
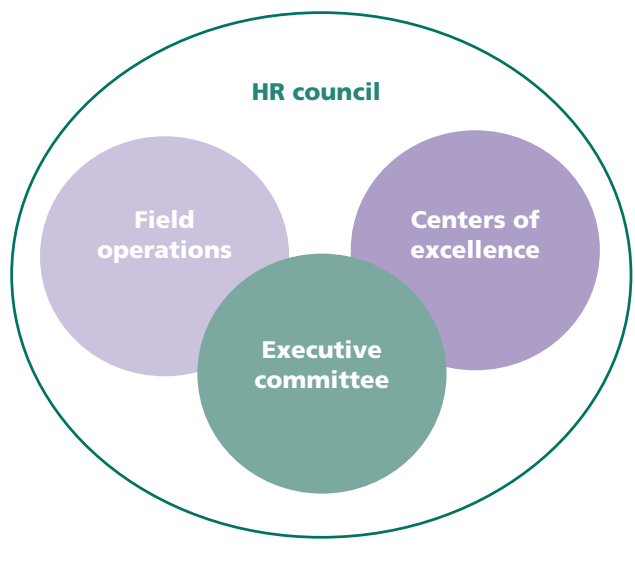
Structured by responsibility

- Involving others outside the council and HR as required

HR council

- **Field operations**
- **HR reengineering team**

Source: adapted from research on corporate boards by Mercer Delta Consulting

Optimizing Council Effectiveness

HR's most visible organizational risk is establishing a formal council structure that does not govern effectively. Effective governance demands collaboration and commitment to group objectives on the part of council members. In reality, people are often asked to join councils because of their position in the organization, not based on their ability to work on a team or their interest in governance issues. So, just as effective councils clearly define structure and accountabilities, they also must consciously evaluate, manage, and improve group behavior.

Enabling systems

Beyond group dynamics, there are other enabling systems that directly affect a governance council's ability to get the job done:

- **Leadership capability of the chief HR executive:** to articulate a vision and priorities, to engage the council, and to manage decision making.

- **Technology:** to leverage all aspects of the function's capabilities, including service delivery, knowledge transfer, employee communication, information gathering, compliance, and performance monitoring.

- **Stakeholder engagement:** to accelerate understanding the council's activities and to manage any resistance to change. Effective councils explicitly identify stakeholder groups, determine their likely responses to change, and develop strategies to encourage desired attitudes and behaviors.

- **Employee communication:** to explain how HR's priorities and activities support employee and business success. Careful consideration should be given to who receives the information gathered through HR performance monitoring, so that clear lines of sight can be established among employee, HR, and corporate goals.

- **Process management and control:** to optimize how the council drives achievement of goals. Often, education in business and HR metrics is needed to fully align process management and control systems with performance measures.

In the case of the health care organization, these enablers were embedded within the council's structure and management processes. In the case of the energy services company discussed later, effective process management was the key to engaging outside stakeholders and to changing HR's image in the organization.

Implementing a Governance Philosophy and Operating Principles

As organizations move into global markets, the complexity of business operations can increase geometrically. For many companies, a critical driver of success is how effectively they can leverage resources, knowing when to be flexible and when to insist on standard approaches. HR executives who understand the organization's attitudes toward risk tolerance, commonality of HR practices, and delegation of HR authority across strategic business units are best positioned to align the function with business needs.

A global pharmaceutical company provides a case study of how HR governance councils can use a governing philosophy and operating principles to maintain functional alignment with the business.

Case in point: The evolution of HR practices at a pharmaceutical firm

In the '80s, a pharmaceutical company's management saw an opportunity to achieve dramatic improvements in profitability by transforming the business from a collection of independent operating units into a unified operation with a global supply chain. In the prior business model, production and marketing were focused on local requirements; each country operated like an independent franchise. In the new model, it would not be uncommon for a drug to be developed in the United States, start production in Ireland, finish production in Brazil, and be sold in Germany.

When the new business model was being put in place, the HR function was, understandably, still operating with autonomous HR functions around the world. Low levels of information and process sharing led to significant duplication of effort. For example, there were multiple executive development programs, each with unique entry, participation, and advancement requirements. Further, there was no way to estimate how much money the company spent on significant workforce investments such as training, and there were no measures to assess training's relevance and effectiveness in the context of business requirements.

Changes in the business model fueled HR leadership's thinking about the opportunities to leverage practices across geographies. The HR council (composed of both regional and corporate HR leaders) decided to identify opportunities to stop spending money on duplicate efforts.

The goal of reduced spending was complemented by another council goal: to begin unifying multiple organizational cultures. The council wrote global guiding principles, setting out explicit workforce practices to be deployed universally. These guidelines (for example, "Global total compensation targets will be above the 50th percentile compared to premium competitive groups") functioned as high-level policy statements. While directionally useful, these guidelines did little to reduce redundancy. The chief HR executive was continually frustrated by the lack of consistency in HR practices.

> ### Why HR governance matters
> Without a clear set of expectations for the consistency of global workforce practices, there was no mechanism by which HR could properly align itself with the business as it evolved.

The business model evolved again when the company's board of directors approved the implementation of enterprise software to link supply chain, finance, and HR management information systems across geographies. At this point, the council made what was, ultimately, a faulty assumption: that a single software platform required identical, global workforce practices.

After investing considerable effort to define global practices, the council found that compliance was impossible – and irrelevant – for some units. For example, goal setting occurred within the first few days of each quarter so goals could be "rolled up" into the new system, setting off a chain of planning and forecasting events. In many locations, data was simply not available by the designated time. Put simply, HR had overshot its mark, exceeding a level of commonality and control that was compatible with the needs of the business. HR was now viewed as an obstacle instead of an enabler.

Striking the right balance

To strike the right balance, the HR council surmised that it should confine its efforts to workforce practices that were sources of global competitive advantage, such as succession planning, performance management, and leadership development. The team developed guidelines to state explicitly who had control and decision-making authority for all of the major activities comprising each practice.

Exhibit 5 shows the type of specifications the company developed. HR leaders determined that to be globally relevant, each practice required a different level of consistency. Leadership development, for example, required common principles and processes. Other practices, such as nonmanagement training and development, were determined exclusively at the local level.

Exhibit 5

Balancing global (G), regional (R), and local (L) objectives to design and operate a global performance management program

Employee development	Succession planning		Leadership development	
	Principle	Process	Policy	Procedure
Leadership development	G	G		
Management development			L	L
Management behavioral evaluations/assessments	G,L		R,L	L
Nonmanagement training and development design		L	L	L
Performance management process	G	G	L	
Individual coaching of management	L	L		

Principles: Central beliefs that articulate boundaries for global practices

Processes: Activities done in a common way with a standard set of tools

Policies: Descriptions of measurable boundaries with consequences for noncompliance

Procedures: Detailed, task-level descriptions of expected work processes

Managing HR's Core Activities

The act of governing the HR function is accomplished through a few core management activities that comprise the bulk of council work:

- strategic planning,

- budgeting and business planning,

- fiduciary and financial oversight of rewards plans and major investments, and

- staff development and leadership succession for HR.

Clearly defined processes for strategic and business planning enable council members to assess the urgency, business alignment, and impact of proposed initiatives. With these processes in place, councils can then be more flexible, shifting focus from one activity to another as business needs arise.

In the case of the company discussed next, HR was one of many functions that switched gears quickly to help its organization's infrastructure catch up with spectacular business success.

Case in point: Formalizing plan governance at a rapid-growth company

At a rapid-growth company, administrative procedures were considered formalities. Leadership devoted its energies exclusively to building a nimble organization that could identify and exploit business opportunities quickly. Along with the triumphs of rapid growth came a host of new organizational requirements, including the need for more formalized ways of controlling and managing:

- a rapidly expanding balance sheet,

- major infrastructure investments,

- complex organizational structures, and

- regulatory and fiduciary requirements.

Company leadership was forced to recognize significant financial and business risks posed by the lack of formal governance systems. In HR, the chief HR executive was coping with a set of issues that, if left unattended, could have escalated into unacceptable financial returns and even regulatory intervention. It was in this context that the company's rewards committee (a subcommittee of the board of directors' compensation committee, which oversaw all aspects of employee pay and benefits) was asked to document its governance practices. In response, the committee created a charter that sought to reflect the best parts of the company culture while providing needed operating boundaries and controls.

Charter guidelines and procedures tried to strike a balance between the specificity required by regulations and the reality of execution in a business environment characterized by rapid change. The charter specified governance practices, including the committee's membership, chain of command, and reporting procedures.

Why HR governance matters

At the rapid-growth company, effective governance was perceived as the way to safeguard the organization's brand assets and build employee loyalty to extend the trajectory of business success.

Clarifying authority and fiduciary roles

The company's decision-making style was heavily consensus oriented, making it difficult for rewards committee members to embrace the reality that federal regulators:

■ held them personally accountable for plan management;

■ considered explicit, consistent decision-making processes to be equally important to good plan governance as each individual decision; and

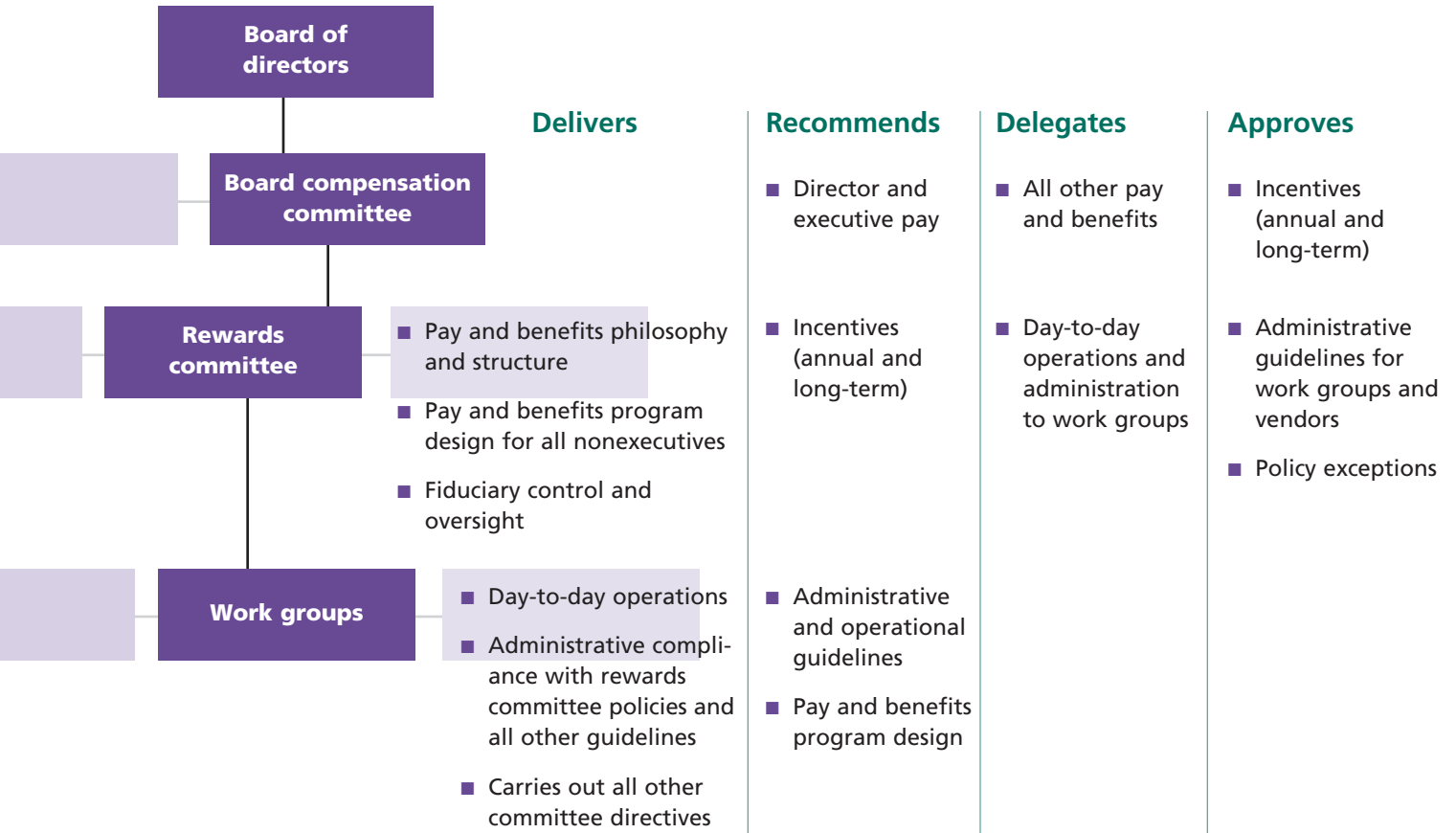■ classified the failure to remedy a known fiduciary breach as an additional fiduciary breach.

Once the rewards committee came to terms with these accountabilities, they decided to describe responsibilities and authorities explicitly for them-selves, for the compensation committee to which they reported, and for the work groups they supervised, as shown in Exhibit 6.

The desire to comply fully with regulations was a major driver of the company's efforts to formalize governance activities, but not the only one. Of equal concern was the value of the company's brand and its reputation among customers and shareholders. Further, company leaders viewed the creation of effective governance systems as an opportunity to build employee trust by communicating about the efforts that had gone toward effective management of employee programs and interests. Documenting an explicit approach to plan management and control was much more than a risk-mitigation tool for this organization. It was perceived as a means of safeguard-ing the company's brand assets and building employee loyalty to extend the trajectory of rapid growth.

Exhibit 6

Fiduciary and managerial accountabilities for rewards plans for the rapid-growth company

	Delivers	**Recommends**	**Delegates**	**Approves**
Board of directors				
Board compensation committee		■ Director and executive pay ■ Incentives (annual and long-term)	■ All other pay and benefits ■ Day-to-day operations and administration to work groups	■ Incentives (annual and long-term) ■ Administrative guidelines for work groups and vendors ■ Policy exceptions
Rewards committee	■ Pay and benefits philosophy and structure ■ Pay and benefits program design for all nonexecutives ■ Fiduciary control and oversight			
Work groups	■ Day-to-day operations ■ Administrative compliance with rewards committee policies and all other guidelines ■ Carries out all other committee directives	■ Administrative and operational guidelines ■ Pay and benefits program design		

Monitoring Performance and Contribution

Effective HR councils can answer various performance questions:

- How efficiently and effectively does the HR function deliver services?

- How effectively is the function focusing on priorities and completing milestone tasks (for example, new program implementations)?

- Is HR managing its finances prudently and complying with legal, regulatory, and internal requirements?

- What is the HR function contributing to the value of the organization?

Time and care are needed to select measures that reflect the unique drivers of financial performance and risk in an organization. Measures that motivate individuals and teams provide information about what action needs to be taken to achieve desired outcomes. And they link performance drivers (such as accuracy) with outcomes (such as cost savings), providing a rationale for change. See Exhibit 7 for sample measures.

HR councils use performance measures to communicate goals and priorities, energizing HR staff and business leaders. Using performance measures as a catalyst for change requires that measures not be set in stone. They are best revised as regularly as operational, customer, and financial measures are updated for the business. As such, Mercer believes there is no benchmark set of HR measures that is standard for all organizations. But after measures are chosen, benchmarking information can be extremely useful for providing comparison data to set specific performance targets.

Once measures are selected, HR councils typically organize them within frameworks used by the business to best facilitate alignment of goals and communication between HR and business leaders.

The energy services company described next used a modified version of Norton and Kaplan's balanced scorecard framework[2] for HR performance monitoring. What distinguishes the quality of this organization's measures is the commitment to identifying the most relevant set of metrics – a commitment that paid off when senior HR executives asked for more investment dollars.

Case in point: Building a fact-based foundation to reposition HR

An energy services company's new CEO had been charged with bringing entrepreneurship and operational excellence to the century-old company. He knew HR was not well positioned to support the changing business strategy and human capital needs of the organization. So the CEO charged the new chief HR executive with the task of "getting HR's house in order before we try to help the rest of the organization."

Why HR governance matters

The CEO bought into the plan for new HR investments as soon as he saw the hard data that supported the recommendations and the chief HR executive's estimates of increased revenue based on productivity improvements.

Over a period of months, the chief HR executive redesigned the HR function, creating new, more focused roles with the goal of capitalizing on investments in workforce training, development, and rewards. To encourage management buy-in for the new structure and business plan, HR based its recommendations on several types of data:

- A series of surveys about workforce capabilities, behaviors, and attitudes as well as current management practices were conducted with business and HR leadership.

- Several years of employee data were used to assess the patterns of movement into, through, and out of the company and to see what types of workforce behaviors were most productive and most rewarded.

- Within HR, detailed data about staff activities was collected from both corporate and unit HR staff.

Because the chief HR executive based her plan on hard data, she was able to make the case that productivity improvements could meaningfully improve revenue over the next two to three years.

Exhibit 7
Sample HR measures

Measurement focus	Performance question	Sample metrics
HR functional management	How well does HR deliver services?	■ Quality/accuracy of information ■ Process cycle times ■ Errors/defects ■ General satisfaction
Workforce management practices	Are HR programs delivering desired results?	**Efficiency of a practice** ■ Timeliness of implementation ■ Ease of use ■ Cost savings **Effectiveness of a practice** ■ Change in employee or management behaviors ■ Level of credibility ■ General satisfaction
Risk mitigation, financial management, and fiduciary oversight	Is HR prudently managing its finances and complying with legal, regulatory, and policy requirements?	■ Audit results ■ Legal actions ■ Operational performance
Business impact of human capital	How is HR helping to build organizational value?	■ Human capital productivity ■ Culture change ■ Attraction and retention ■ Leadership strength ■ Competency/skill base ■ Career development

(Very conservative estimates predicted a $5 million increase; moderate estimates were ten times higher.) Sensing a new level of rigor as well as a focus on the things that mattered most, the CEO bought into her plan. Funding for a talent management system, additional HR staff, and technology improvements was immediately approved.

Like the HR leader at the health care organization discussed earlier, this HR executive decided that a governing council was needed to guide and monitor implementation of the new investments. At the heart of the monitoring process, the council would use an HR scorecard to prioritize, communicate, and drive achievement of HR's strategic objectives.

Using data collected during the redesign phase, the council selected a set of measures. Exhibit 8 shows the scorecard format used by the governing council to review progress. Because of its similarity to the format used to track business progress, it's an effective tool for talking about HR goals and challenges with business leaders. As a result of the HR teams' work at the energy company, perceptions have changed. In the words of the chief HR executive, "Two years ago, the CFO was the leading proponent of total HR outsourcing. Today he's looking at the function through a different lens because we are beginning to demonstrate we can do the things our leaders want."

Exhibit 8
Sample scorecard framework

	Long-term objective	Annual measure	Target	Frequency	Weight	Performance factor
How well does HR deliver services?						
Are HR programs delivering desired results?	**Long-term objectives:** Articulate long-term functional strategy when viewed as a whole. **Annual measure:** Reflect emphasis or action for 12-month performance cycle with appropriate mix of lead-and-lag measures. **Target:** Performance commitment.					
Is HR managing financial, fiduciary, and compliance responsibilities?	**Frequency:** Unit of time for performance assessment and reporting. **Weight:** Relative importance of measures. **Performance factor:** Relative difficulty of objective or target. Used with "weight" ratings to assess how effectively objectives were met overall.					
How is HR helping to build organizational value?						

Conclusion: Governing for Superior Performance

Effective HR governance concerns itself with all aspects of HR functional management. Effective HR governance is:

- consciously planned and designed;

- balanced in focus between the human capital needs of the organization, and operational and fiduciary responsibilities;

- understood, accepted, and acted on by involved stakeholders within and outside HR;

- aligned with existing corporate models to which it must link; and

- able to measure how it contributes to the sustained success of both the function and the business it supports.

Mercer expects the trends toward more complex operating models and increasing regulatory oversight to continue. While CEOs and boards of directors are intensely focused on how to govern effectively, HR executives should anticipate these types of questions:

- What is the model for governance of the HR function?

- What are HR's areas of focus? How are activities in these areas being managed?

- How do the function's philosophies on risk, autonomy, and delegation of authority align with the business?

- Do HR leaders understand their fiduciary and financial accountabilities?

- How are the performance of the function and the effectiveness of the governance council monitored?

To answer these questions, HR executives might consider ways to increase functional performance levels, accelerate change, and enhance contributions to the business by making implicit governance models explicit.

This point of view was developed by Mercer consultants Brent Heslop, David Hilborn, John Koob, and Robin Szumyk, with input from their colleagues around the world.

1 *Human Capital Management: The CFO's Perspective*, Mercer HR Consulting and CFO Research Services, 2003.

2 Kaplan, Robert S. and David P. Norton, *The Balanced Scorecard: Translating Strategy into Action*, Harvard Business School Press, 1996.

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