

# HR MEET 2009

“LEAD THE FUTURE”

Human Resource Development in Corporate Governance

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## Human Resource Development in Corporate Governance

Human Resource Management (HRM) has been an integral part of corporate culture. If the belief is that people drive the organization and are important to it then organizational behavior underscores the direction the company is heading. In order to harness that energy and put it in positive direction the role of HRM becomes important. The other area of good management practices is corporate governance. Traditionally corporate governance is defined as the management of an organization in the best interest of its share holders. Internationally there is a dearth of studies linking HRM and Corporate Governance. It is argued that a closer integration among corporate governance and HRM increases the organization's productivity.

Corporate Governance is all about accountability and responsibility towards providing a transparent system. In public limited companies where ownership and management are not the same, the management may not work in the best interest of the share holders. As a result the modern corporation has a board of directors that are responsible towards the share holders and provide checks and balances by monitoring the management. The responsibility of the board is to guide and monitor managements activities inline with the strategy presented to it. Undue interference in the activities of management by the board can be detrimental to the growth of the company.

Even as the CEO initiates and implements corporate strategy, there is still need for a board to review risk assessment and management. Proponents of this practice argue that because managers cannot diversify employment risk, mechanisms that reduce risk may be pursued, which may not be in the best interest of the share holders.

The literature on corporate governance has focused on board structures, board composition, CEO duality, board actions, etc. It is argued that even as governance and risk management and human resource management structures are in place at the board level, there needs to be a strong link between the board and structures and actions, and the implementation of board decisions at the operational level. Because Human Resource Management is at the heart of implementing strategies, the HRM function should play a key role in implementing such strategies.

The experience of HR in the acquisition, development, compensation, and management of performance of employees can become handy in meeting challenges at the board level. It is important that the HR manager is qualified to do this.

The Organization cannot overemphasize the significance that people-risk plays in strategy implementation. Therefore, it is important that the right people are selected for the right jobs.

It is recognized that strategic human resource management has not received as much attention at the board level as it should. However, this trend is gradually changing as firms witness the collapse of good governance and risk management in some leading companies. The human risk factor has increasingly become a major concern of corporate boards. One of the biggest people –risks is with recruiting and retaining key personnel.

The effectiveness of HRM is enhanced when it is integrated with decision making. The decision, implementation, monitoring, and gathering of feed back depend on people.

The most ideal level of involvement would be that HRM is involved from the beginning of any initiative relative to these practices. The opposite situation is when HRM is not consulted.

Never has the research in this area been as important as it should be in Nepal in recent years.

There are very few corporations in Nepal that have a fully functioning Human Resource department. Hiring is done arbitrarily, in most cases, and appraisals and training are done in an uncoordinated manner at the will of the department head. What has become more prevalent has been the practice of Promoters and Board members exercising undue pressure to recruit people not based on merit but contacts. Either management is circumvented or used.

For a professionally run organization it is important that the board acts in a supervisory role and in the case of HRM it complements it by not interfering.- This is where top management has to be able to earn the trust of the board especially the HR director.

- Paper presented at the HR conference by Siddhant Raj Pandey, CEO Ace Development Bank Ltd.