

An Unfinished Journey: What Boards Must Do Now to Mitigate Talent Risk

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Executive Summary

Artificial intelligence, paradoxically, may turbocharge the CHRO's role. As AI hits maturity, and everyone has access to the same large language models, the demand for human skills will only accelerate. The new talent risk that CEO and boards must address won't be finding enough people to fill jobs. It will be lacking enough people with the judgment, creativity, empathy, and ethics to differentiate enterprise performance.

CEOs today will tell you they have two critical levers they can pull to help drive strategy: One is finance, and the other is HR.

That's a big shift from decades ago, when chief human resources officers were still perceived to hold more administrative roles. But decades into a knowledge-based economy, and after years of navigating workforce shortages, a global pandemic, and social unrest, CHROs are now widely viewed as strategic collaborators with the CEO. Some 60% of CEOs now label CHROs as effective business partners, and over the past three years, 70% of public companies say their CHROs have become more engaged with the board, often significantly so.

Yet the evolution in how companies manage their talent risks—and how the role of the CHRO has shifted from talent enabler to strategic risk manager—is still an unfinished journey. Making more progress on that path will only become more imperative as an AI-driven economy commoditizes technological advantage and elevates human capability to drive differentiation.

Over the next three years, CHROs will sit at the center of some of the most existential risks businesses face—AI displacement, reputational blowback, cultural collapse—and too many companies are ill-equipped to manage them. Now is the time to formalize the critical role CHROs play, from the board level down, in both value creation and risk mitigation.

The Human Factor: Why People Risks Now Drive Enterprise Risk

Traditionally, risk management frameworks focused on operational risks that were primarily mechanical, financial, or regulatory. But today,

human-centric risks are among the most consequential that companies face, especially as intangible assets represent ever-larger portions of company valuations.

High-profile human failures—from Wells Fargo's fake account scandal to Boeing's 737 MAX disasters—have shone a spotlight on the destructive power of weak workplace cultures and ethically compromised leadership. A global pandemic forced companies to reconsider employee well-being, and health and safety risks have led WTW's Global Directors and Officers list of top risks for the second year running. Meanwhile, employee activism, the fading of DEI's momentum amid political controversy, and evolving generational attitudes toward work are all shifting the landscape for employers' reputational risk.

Today, culture is no longer a differentiator. It's a liability if it's misaligned. Employees who are not engaged or who are actively disengaged cost the world \$8.8 trillion in lost productivity, or 9% of global GDP, according to Gallup. A National Bureau of Economic Research paper found 85% of CEOs and CFOs say unhealthy corporate cultures could lead to unethical or illegal behavior. These aren't just HR metrics—they're fundamental business risks that directly impact shareholder value.

AI's Paradox: Making Human Capabilities More Critical, Not Less

All these factors have already elevated the CHRO role. Artificial intelligence, paradoxically, may

turbocharge it. While AI may shrink the size of HR teams and dramatically lower hiring or overall headcount, it is also primed to make certain human capabilities much more valuable, not less. Uniquely human skills, such as social and emotional intelligence or creativity, communication, and compassion, will increasingly serve as differentiators.

As artificial intelligence hits maturity, and everyone has access to the same large language models, the demand for human skills will only accelerate. The new talent risk won't be finding enough people to fill jobs, but lacking enough people with the judgment, creativity, empathy, and ethics to differentiate enterprise performance. Research has already revealed a paradox: AI may democratize access to creative tools, but it also amplifies cognitive differences, potentially exacerbating "soft skill" disparities and enhancing the demand for human capital capabilities.

CHROs will be charged with navigating that shift. While chief technology officers worry about technical implementation and CEOs focus on competitive advantage, it is people leaders who will own the ethical implications, workforce displacement, and organizational transformation challenges of AI. Indeed, 92% of HR leaders already say they have a role in AI implementation, according to a survey by SHRM.

The Boardroom Blind Spot: Where Leadership Fails to Match Priorities

Despite such technological shifts, and the broad consensus that CHROs have become essential business partners, boards have yet to reflect those priorities in their

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composition. Less than 2% of new directors on Russell 3000 company boards in 2023 were current or former CHROs, according to Equilar. A standalone H.R. committee on public companies is exceedingly rare, even while the mandate of compensation committees increasingly looks beyond executive pay and regulatory concerns into broader human capital measures.

Meanwhile, boards and CEOs still don't invest enough in developing the talent in their people functions. Directors obsess over CEO succession but rarely invest enough resources in asking if they have the right CHRO for what's next. Too often, they consult with CHROs on people aspects of business strategy rather than positioning them to drive strategy as an equal with their top management teams. Companies must develop broad business acumen in their H.R. organizations, developing leaders both inside and outside H.R. who can combine commercial know-how with people expertise.

A Blueprint for Strategic Human Capital Governance

Organizations that thrive over the next decade will amplify the human capital agenda at the board level and invest more in developing the business acumen of H.R. teams. What organizations need to do:

Add more current and former CHROs as directors, intentionally placing them on risk committees.

Bringing human capital expertise directly into the boardroom ensures that talent risks receive the same scrutiny as financial and operational risks. CHROs on risk committees can identify early warning signals of cultural breakdown, engagement crises, and talent flight other directors might miss.

Consider expanding the comp committee into a true human capital committee.

Traditional compensation committees focus narrowly on executive pay and regulatory compliance, but human capital committees can take a broader view of workforce strategy, culture metrics, and succession planning, strategically deploying talent as a competitive asset.



Make talent risk part of the full board agenda.

Rather than relegating people discussions to a single committee or quarterly updates, boards should integrate human capital considerations into every major strategic decision. This means evaluating talent implications when discussing market expansion, technology investments, or major operational changes.

Prioritize executive rotations both into and out of H.R.

Cross-functional leadership development ensures that future CHROs understand commercial realities, while other executives gain firsthand appreciation for the complexity of managing human capital at scale. Rotations also build a more integrated leadership team that can navigate people challenges across all functions.

Demand greater commercial acumen of H.R. leaders and build new measures of success.

The days of measuring HR success solely through traditional metrics like time-to-fill or employee satisfaction scores are over. Modern CHROs must demonstrate their impact on business outcomes through metrics like revenue per employee, leadership bench strength, and culture's correlation with financial performance.

The stakes have never been higher. The organizations that recognize the impact of talent risks now—and restructure their governance and development plans accordingly—will thrive in an economy where human capability becomes the ultimate differentiator.

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