

## HARRT Round Table May 8<sup>th</sup>, 2013

### Session Notes

#### "Critical Issues for Business and HR in 2013"

##### *Featured Speaker:*

**Rebecca L. Ray, Ph.D.**

Senior Vice President, Human Resources  
The Conference Board

##### *Executive Panel*

**Julia Gouw**

President, Chief Operating Officer  
East West Bank

**Avi Steinlauf**

Chief Executive Officer  
Edmunds.com

**Philip de Toledo**

President  
Capital Group

By: Marybeth Vita-Edwards

#### **Introductory Remarks:** Linda Newton and Steve Milovich

Linda Newton opened the Round Table welcoming members, speakers, staff and guests and framing the context for the topic in connection with the prior Round Table. The year began with a Round Table on February 13 which focused on strategy and the roles and responsibilities of leadership and managers in the strategy formulations and execution process. This Round Table focuses on the challenges that influence strategies in 3 segments: 1) **Big Picture:** The Conference Board's 2013 CEO Challenge Report outlines the key challenges and their implications for strategy and HR leaders. 2) **Top Executive Perspective:** A panel of CEO's shared their perspectives on how their businesses are changing, what challenges they face and how HR plays a pivotal role in the process of change and executing strategy. 3) **Group Discussion and Application:** members reflected on the information presented by the Conference Board and the Top Executive Panel in terms of their roles and plans and insights that might modify approaches.

Steve Milovich added his personal comments on what makes HARRT unique. He believes it is the blend and mix of practitioners with practically minded, well-regarded academics. The

interaction between practitioners and the academics, the networking we do. The retreat gets better every year. He has not found a better forum to participate in.

In regard to people who make a big impact on business; Rebecca Ray mixes the art and science of human capital. She is the ideal person to engage as she is a right and left brain thinker who has done a tremendous amount of analytical work that is practical and pragmatic but is also great at the soft stuff.; making both relevant and insightful. He believes she is a great example for current practitioners as well as future generations of leaders in HR to come at issues from a business perspective. She spends a great deal of time with business and HR executives and help them to up their game.

### **Rebecca Ray**

- Rebecca gave an overview of the Conference Board. It is a business organization that looks to achieve two very unique objectives since 1916,
- Their Mission: To provide the world's leading organizations with the practical knowledge they need to improve their performance and better serve society.

### **The Conference Board CEO Challenge™ 2013 Countering the Global Slowdown: Optimizing Talent and Operational Performance**

- From September 2012 to November 2012, CEOs were asked to rank order the top five challenges they anticipated their companies will face in the coming ear. There were 729 responses in 2013 in comparison to 770 in 2012. Responses were weighted according to each country's GDP as well as by the responses relative ranking.

#### **I. Challenges**

- CEOs were asked to rank 10 challenges: Global political/economic risk, government regulation, Human capital, operational excellence, innovation, customer relationships, global expansion, corporate brand and reputation, sustainability and trust in business.

### **Global results:** – Top 5

1. **Human Capital** – was #2 in 2012
2. **Operational Excellence**
3. **Innovation** – was #1 in 2012
4. **Customer Relationships**
5. **Global political and economic risk**

### **Regional Perspective:** United States

1. **Operational Excellence** - tops the US list of challenges for CEO's
2. **Government Regulation** - continues to be a critical challenge in the U.S.; it is the only region to rank this challenge in the top five.

3. **Customer Relationships**- plays a bigger role in business strategy as it shifts upward from #6 last year
4. **Innovation**
5. **Human Capital** - US is the only region Human Capital is not #1
6. **Global Political/ Economic Risk** - was #2 in 2012 and dropped to #6 in 2013

### Regional Perspective – Europe

1. **Human Capital** – Makes a dramatic rise from #7 in 2012
2. **Operational Excellence** – this ranking shows an inward focus of European CEO's
3. **Innovation** – remains in top three from last year
4. **Global political/economic risk** – organizational focus shift inward as this and the government regulation dropped in rank from last year.
5. **Government regulation**

### Regional Perspective – Asia (29:34)

1. **Human Capital** - Asian CEOs are the only regional group to rank *both* Innovation and Human Capital within their top three challenges.
2. **Innovation was** – Was #1 in 2012 - Innovation, ranked second in Asia, is the highest ranking of any region. CEOs in China rank Innovation as their number one challenge; a signal that the flow of innovation is shifting from east to west
3. **Operational Excellence**
4. **Global political/economic risk**
5. **Global expansion** - Reflecting a focus on growth, Asia is the only region to rank Global Expansion in its top five (tied with Customer Relationships).
- 6.

## II. Strategies

### **Human Capital**

- The number one global and regional challenge is growing talent internally. Most CEOs have gotten the message that there is a talent shortage.
- \*The top five challenges globally are internally focused: Growing talent internally, providing employee training and development, raising employee engagement, improving performance management processes and accountability, and increasing efforts to retain critical talent. This is a change from 2012.
- Improving corporate brand and employee value propositions to attract talent used to be the number two challenge. These are outwardly focused directives. This year it is less important, and is only ranked as seventh most important challenge.

- Rebecca Ray is always surprised at items which do not rank higher. For example: lack of skills, investing in education systems to improve workforce readiness and succession planning.
- European CEOs tend to not understand the importance of engagement and the impact it has on business

### **China - Developing, Attracting and Retaining Talent; Improving Performance**

- Human Capital professionals generally have higher levels of engagement or are very bad at engagement. It depends on where you go. Western civilization tends to have higher rates than for example China or India.

### **India - Developing, Engaging, and Retaining Talent**

- Improving effectiveness of front-line supervisors and managers is an important challenge in Asia.
- “To a certain extent, Human Capital is the most competitive differentiator. Once you work it in as a differentiator, people start viewing it as importantly as supply chain or other differentiators. CEOs should connect the dots between human capital and business results.”-Vineet Nayer, Vice Chairman & Joint Managing Director of HCL Technologies Ltd.
- \*Indian CEOs that Ray has spoken to tend to put heavy emphasis on innovation, empowerment, and engagement.

### **Human Capital by Industry**

- Increasing efforts to retain talent is higher in the financial services area than in manufacturing or nonfinancial services.
- There is a real concern about engagement in most industries except manufacturing. This is shifting though; manufacturing industries are becoming more aware of the need for engagement.

Human capital is a chief concern at all revenue levels

- Human capital is at the top of the list for all revenue levels for the most part.
- Operational excellence is the number one challenge for those companies whose revenue is between one billion and five billion dollars. This revenue group is usually attracted to larger companies or being poached into startups.

### **Top 5 Strategies to Meet the Top 5 Challenges**

- The top five strategies for meeting the challenge of Human capital are growing talent internally, providing employee training and development, raising employee engagement, improving performance management processes and accountability, and increasing efforts to retain critical talent.

- The number one strategy for dealing with the challenge of operational excellence is raising employee engagement and productivity. So even in the context of looking at operational excellence CEOs are still looking at the person percentage.
- The third strategy for dealing with operational excellence is breaking down internal silos; and the fifth strategy is seeking better alignment between strategy, objectives and organizational capabilities. So once again, the strategies are very person aligned.
- Three of the top five strategies dealing with the third most important challenge, innovation, are people focused. These strategies include finding, engaging, and incentivizing key talent for innovation; creating culture of innovation by promoting and rewarding entrepreneurship and risk taking; and developing innovation skills for all employees. Developing innovation skills for all employees is a new top five strategy. More CEOs are beginning to understand that innovation does not happen with a small group of people who meet every Tuesday in a room down the hall. Innovation starts with the grass roots.
- Engaging personally with key customers/clients is the third strategy that helps deal customer relationship challenges.

## Q&A

**Q: (Steve Milovich)** - “Why does US have a low interest in Human Capital? Why is Human Capital ranked lower? I think there is a correlation between the number of MBA’s in the US, not at UCLA of course, in certain ways that there is an intensity to think about that and move on to the other thing...I’m just curious on what your thought are.”

**A: Rebecca Ray** - I think there are a couple of things at play. I think there is still a prevailing view that there are millions of people out there who, once the economy shifts, we can just pick up the phone and call. Because they used to work for us, we know where they are. This is something entrenched in CEOs minds. People cannot simply go to where the jobs are however.

- We also crank out four times as many marketing grads as we need. There continues to be a mismatch between what educational systems produce and what businesses need. There can be tighter linkages between what business says it wants and what business schools produce. There is also a third area of accountability. Governments need to be a part of the process, because it is to everyone’s advantage to have a thriving community.
- Unfair for CEOs to say that their companies have no talent, where are they? I can’t find the skills and/or I have jobs I can’t fill without saying “what can I proactively do?”
- We continue to have challenges with low strategic license. We don’t get a chance to exhale, to have the time to think about what we can do differently strategically. Often HRs are not given the time to have a strategic conversation with leadership, so it is assumed that they can’t.
- We have not always helped the folks who are barely coming into the profession
- It is also because companies don’t trust the data we give them.

**(Follow up) Steve Milovich**

- Maybe because we haven't stepped up as much as we should, there might be a different views of CEOs
- Maybe because we don't focus and link HC more clearly to bring around and what levers a CEO can pull to add value. Also, he thinks they maybe haven't done the best job in really showing that the data is real and that it is really credible (agrees with speaker)
- Interesting how Europe and Asia have a different view of the importance of HC

**(11:53) Rebecca Ray**

- People change their views and habits when there is enough pain that is so apparent ← this is where the change happens

**Q: (Patricia Hamrick)** What's the correlation of industry in the data provided?

**A: Rebecca Ray** - \*There is no question that manufacturing is all over the skills gap. Manufacturing is doing a lot more proactive work on closing the skills gap. I get a little concerned in financial services because the pressure has been for so long on government regulation and retaining talent, that I worry that there is less attention to human capital. It is difficult to accurately paint and industry. There are always shining stars in industries who are more forward thinking, who are able to and chooses to be at the fore front. Manufacturing is doing a lot more proactive work in the stem area.

Touch points of RR answer:

- *\*We also have to fix the visa issue*
- *There are a lot of people who come and would like to stay (not everyone would like to go) but if so, how would we let that person go?*
- *Malaysians and many other Asian countries for example*
- *Repatriation and \*National pride*
- *But some people would like to stay here. So we should make it easier to keep the right amount of skill sets from the ones we don't have.*

**Q: \*(Not sure who asked this)** Why is trust in business so low?

**A:** We did think it was going to be much higher. Regulation has helped with transparency and restoring trust. Also, it is not that trust in business is not important, but the forced ranking of the study just has it lower on the list. There has been a lot of regulation which helps with transparency that helps to remove the relatively small percentage in any industry of those who are not at the goal of compliant. Regulatory atmosphere has helped some of the regulatory transparency. Regulations have helped to restore some of the trusts. We haven't quite gotten there yet, but we'll get there.

Q: Do you have any data that would indicate whether the ranking would be different especially Human Capital for the next level down in an organization?

A: Can only answer based on last year's data;

- In the US, Human capital professionals and CEOs are not a 1 to 1 match but they are more or less aligned in terms of what they rank as challenges
- \*In Asia, they're in "locked-step"?
- In Europe, they are screamingly in different rooms – \*very misaligned
- They asked who on your team can help us with additional input on each of the challenges but did not get significant response to use as data

Q: **(Linda Newton)** Are you going to be covering the America?

- A: Yes that is our goal for next year. The problem has been having enough CEOs to survey there.

Video -Part III

### **CEO Panel**

**Avi Steinlauf – CEO, Edmunds.com**

- Role model for how to integrate HR into organization. Sustainable pushing HR to be passionate about workplace.
- 80 % of Edmunds.com's workforce is based in Santa Monica. It's privately held and has about 520 employees. Edmunds.com is looking to build a business for the long run. They are not interested in going public or selling out. HR is core to what Edmunds is all about. They're very much a people business
- Edmunds felt a lot of pain during the 2008 recession. From about 2000 to 2007 they went from selling about 16 to 17 Million new vehicles to selling around 10.5 million. It was a difficult period. Edmunds had to make choices about what they were going to do about their population. They made the decision to hold on to all of their people. They felt like what they were going through was going to require the type of people and talent that Edmunds had spent over ten years acquiring. This year Edmunds will probably sell about 15 million vehicles. Edmunds has a big initiative to grow from within. Last year 13 % of their workforce was promoted from within the company and 19% of open positions were filled from within. People have an understanding that they have an opportunity to grow as Edmunds grows.
- Edmunds also decided in 2011 that they would abolish the concept of vacation. They adopted a results based work environment. As of January 2012, Edmunds got rid of all vacation, and people can take an unlimited amount of vacation as long as they got their work done. Obviously it is not as simple as that, people had to go through a lot of training and development. But having been in this scenario for well over a year and having

surveyed the population, Edmunds received rave reviews. The key piece that Edmunds heard from the employee population was that people liked to be treated like adults, and they appreciated being treated like this.

- Operational excellence is very important to Edmunds. Every year they do an exhaustive survey of their population. Edmunds wants its employees to know that they are important to what Edmunds is all about.
- The other area that is very important to Edmunds is innovation. Edmunds is in a space that is evolving very quickly. They are frequently worried that two people in a garage are going to come up with something and displace Edmunds overnight. Edmund's CEOs asks: what are we doing to make sure that we are continually innovating, continually coming out with new products, continually coming out with new services, continually wowing the consumer population, etc. That is what's at the core of what Edmunds does.
- Edmunds adopted a way of developing and designing products called design thinking. "Get your boots on" Get out of their office once a month and experience something to bring back to the go out and meet customers, meet with clients, to test things, rapid prototyping, getting a sense for what's going on in the market place and how we can help design and innovate new products.
- Edmunds use to do business with dealers throughout the country through third parties. For a number of reasons Edmunds no longer wanted a middle man, so they trained a sales force around the country. Edmunds now encourages all of their employee to go out and develop customer relationships

### **Julia Gouw – President and COO, East West Bank**

- East West Bank was founded 40 years ago, in 1973, to serve as the first saving and loans to help Chinese immigrants to get mortgages. Forty years later East West Bank now has 22 billion dollars in assets, they have their headquarters in Pasadena; they are ranked in the top 30 largest publicly trading banks in the country. For the last three years they have been ranked in the top 10 out of 100 most successful banks in the country by Forbes magazine.
- 2300 employees
- Growth of human capital is not the main goal of East West Bank; they want superior financial performance. A big challenge in the future however, is to figure how to maximize human capital to sustain and continue high performance.
- East West Bank's top five strategic goals and initiatives that directly or indirectly relate to human capital:
  1. With the amount of growth that East West experiences within a short amount of time, they have to continue to hire a lot of talented people.
  2. Upgrade their leadership talent through coaching, training, and formalizing succession planning.
  3. Promote internally
  4. They want higher retention and engagement through wellness, communication, and team spirit activities.

## 5. Growth and sustainability

- Continue to build talent in bridge banking through training of people who have MBAs from universities in U.S. but are from China and speak Mandarin.
- They want to leverage employees to bring in commercial loan referrals.

### **Phil de Toledo – President, The Capital Group**

- Capital has about 7,000 employees around the world.
- 10 years ago Capital Group did a survey of employees which found that HR was not viewed as a close business partner. They did all the standard tasks, but usually HR was never brought in unless there was a problem.
- Layoffs in 2008/2009 recession created an opportunity for Capital to do things differently. The HR group was given an opportunity to work with managers and deal with employee stress, job reduction process, change management, reorganization. During that process, HR developed business partner relationships with various parts of the organization. Business partner realized that HR was someone you went to for not just hiring new employees but also for good ideas. Now that HR is more integrated, there is more robust talent management, training and development, diversity and inclusion, performance management, etc.

### Video Part IV – Executive Panel Q&A

Q: What is the average age of your employees?

A: **Avi Steinlauf** - Mid to late thirties. It's a young feeling environment.

Q: **Darren Thomas:** Does it make sense to have a centralized HR department? Have you given it thought? And what has kept you on the path that you're on as it relates to what you do with the human resources department. What's the differentiator for you as it relates with how you relate with human resources?

A: **Julia Gouw:** East West Bank tends to be more centralized, because for them the majority of the corporate people are in corporate offices and branches. This is the most efficient method at this time. It works for them to centralize most of the support function. It's not efficient to put all the support functions in the divisions for them. As the company has grown, having Terry, a seasoned HR representative has given them more structure and better ways to manage their human capital

**Avi Steinlauf** – HR will always have a seat at the table despite what is en vogue at the time.

**Phil de Toledo** – In the beginning they were decentralized throughout the world. In the last 10 years, John Kelly has taken over global HR and he has people who are located around the world, where the people are, and they report to him but you know who your business partner is. They

moved to self-service for performance evaluations but there's nothing like the human touch element. You can't get rid of that.

**Q- (Steve Milovich)** How do you integrate or how is the Human Capital or HR component integrated or dealt with through your planning process? Is there a five-year plan, strategic planning, and in your operating plan? Not so much centralization vs. decentralization on what is HR. How does HR feed the real big business process in your companies regarding the Human Capital element, not the transaction, not the day-to-day?

**A – Avi –** It's "easy". HR has a seat at the table in every single meeting we've got, retreats etc. We've got, all the major initiatives we're associated with, etc... so it's never a "let's think about this now and ask HR what they think," they're just always there. They are a very transparent environment so it's never a second thought that they have to check off and worry about it because it's parts and parcel of how they do things.

**Julia -** Same as Avi.

**Phil -**Being a private company, we are probably less robust; we don't have a 5 year plan. We do business planning each year but it's really for each business unit. They have communication and relationships because you can't ramp up the machine quickly since they need to be moving and relocating people. They always work together to know how they can move the organization forward.

### **Closing and Transition to Group Discussions - David Lewin**

Based on the questions, comments, the CEOs, and Rebecca's presentation and research, suggests further movement in this direction of having HR executives have a seat on the table.

### **Video - Part V**

#### **Group discussions**

**Q - David Lewin -** What's your sense of CEO retention vs. turnover? Are we seeing shorter retention on CEOs as a general proposition or could we not say that?

**A: Rebecca Ray -**Retentions of CEO itself, we are talking about 18 months of shelf-life on average

**Q: David Lewin -** So the reason I asked this knowing that if you do a survey every second year of what you think of the same sample of company CEOs, you're likely to have 50% of turnover rate?

**A: Rebecca -** The good news is they just go somewhere else. That's part of the job rotation, acceleration of their development program.

### **Group Reports**

#### **Table report - Terry Schuler**

We all came to our jobs in very unusual circumstances. People at our table came from private industry to academia and found that as a very interesting experience and how to figure out how to start building the HR function and getting HR better engaged in an

organization that didn't quite understand about that and how she did that. Someone else had an unbelievably fascinating challenge of having 3 failed bank institutions and seeing all their executives walk out the door. She was an Auditor... A GREAT WAY TO START YOUR CAREER! Terry's personal experience at East and West Bank which literally doubled its size overnight. We all had challenging experiences with organizations which did not have experience with HR.

**Table report - David Heath**

Talked about Yahoo decision regarding flexible scheduling and how they are they going to be maintaining their staff in the future. Talked about how the data (the handout from Julie Miller) directly sends the same message on what they need to focus on in their profession. All the challenges that are coming to them that are so profound that will probably change all their professions in the way they've never seen.

**Table 8 report - David Goodrich**

They talked about the vacation policy and about engagement and found it really interesting that the CEOs didn't really talk about engagement. We're not sure if it's maybe the lingo that we're not particularly good at articulating what engagement is. It didn't seem to be high on their list of things interesting in Human Capital or the other issues they had. But perhaps we don't do the best job in telling them what engagement really is. It was just really unusual that the CEOs didn't really talk about it.

Linda Newton - In my sense since I talked to him off-line, with Phil de Toledo, is that he incorporates that into the environment. He talks about HR, making the work environment where the employees can be productive in and he does include engagement

**Q: David Lewin** - Rebecca, did you find that the word "engagement" has a different reception or meaning if you move from major continent to continent, region to region.

**A: Rebecca Ray** - I don't think it resonates quite the same way in Europe the way it does in the US. CEOs in Europe were all over sustainability early on, the US had some very forward thinking companies probably a lot who are based in California but a lot of them it's just not as high on their list but it's extremely high in Asia Pacific so obviously they'll equate gloves with sustainability. In Europe they figured they could have done that but the US is lagging behind. Engagement I think in the US is further out. The technology was here and everybody kind of rushed in, so we've been at engagement for a lot longer so I think that is why it resonates differently. But I hear what you're saying; I think there are two things to this. Engagement was number 3 in the Human Capital challenges but it was their number 1, or at least part of their number 1 response for corporational excellence. So I think they kind of get engagement, but I think as a profession to your point, we need to a better job of articulating why we should care about it and what it means. So if we could close that gap, we would be served when we want to talk about engagement.

**Table 4 report: Ellen Sheehan**

We all had different areas that our companies were focused on. 1. Growing talent internally. We had consensus that it was a very important issue and it is being addressed in different ways in the different organizations. It is definitely something that each of our

organizations were thinking about. 2. Retention - One organization said that it was the most important thing because they are having important people leaving their organization. So how to retain them which is tying back to the whole engagement of how to understand how do you engage. At Princess Cruises (her company) , they really dropped down to number 9 in terms of improving supervisor and manager effectiveness because they felt that affected and started to cut across all the different areas because they can't hear your message that all the great strategies on the top may not effectively distill down to the bottom.

**David Lewin (comment)**

And that goes back on who actually has contact with your customers.

Ellen Sheehan: Another big discussion was on the input some person got in their survey saying that everybody wants to get promoted and wants to make more money. So how do you deal with that?

They called it "career development" Kathy Mandato

**David Lewin-** I call it "instant gratification"

**Rebecca Ray:** I hear what you're assaying about the regretted loss of some people you want to retain. How many still do employee engagements that are completely anonymous? Anybody moved to confidential yet? This is the next thing coming. People who move from unknown to known. It has to happen because you have to know who among your various populations are engaged. What they'll do now is begin to take performance management and link it up with engagement and you will be able to tell of your folks you want to retain, your critical talent, etc... what's the likelihood that they're at risks and that what I think where the next set of analytics will come, but that's a whole cultural shift specially after we spend decades promising people "no one will know it's you." I think a lot of this will start to happen, the lawsuits will follow and it will kind of shake-up, but it's coming

**Martin Cozyn:** The predictability of who's at risk, the most impressive thing I've heard was Laslo Bock and describing and making through the business of big data. They're looking through conference room bookings, how long your car is in the parking lot, etc... and they just integrate all of this data sources to the point where you as a Google manager would get an email from "the voice" saying, "you may want to check on so and so since they don't seem to be engaged as they used to be. And this would prompt you to have a "everything ok? Are you still happy with us? Etc... "

**Patricia Hamrick-** I don't want data to take away the one-on-one human interaction

**David Lewin -** If this room was filled with marketing people, they would say 'well we've been doing that for a while' since they've got customer sat data and since they've got purchase data and other data, marketing folks have been merging that data sets for a long time because they also face the question of "which customers do we want to retain and which customers do we want to get rid of?"

**Charlotte Lazar-Morrison -** Same concern of retaining the early-mid career in light of some where the top isn't moving or we're seeing the movement move through the population and we're going to need those people to be there with the experience, so it's the whole number 1

concern of growing your talent internally and helping them stay. Maybe setting up unique programs for each person depending on what they want.

### **Rebecca Ray**

You talked about the populations above that are not moving. When you look at the most population that is least satisfied, that is the older group. So you have a group of people who thought, sure they'll be able to retire by now still in there. They aren't moving a lot. Then, you've got other band of people that are pretty ticked off because they're not moving so it becomes a self-fulfilled prophecy in many ways. The report this year is titled "Dead in the Water" because you've got a group of highly paid, long-term, not happy employees.

### **Table Report: Dina Barmasse-Gray**

There were a lot of differences and similarities about the role of operational excellence especially for a lot of our staff members who are front lined hourly workers who our CEOs have more concern day-to-day than perhaps some of the leadership challenges that our ahead in the organization. One thing that was interesting was the great place to work at a conference when Marissa Meyers was speaking there was when she described the whole work from home change was that if you're looking from productivity, working from home can be a productivity briber, but if you're looking for innovation and collaboration, it is not going to happen at home.

If you look at the challenges Yahoo is facing, that what she means, innovation and collaboration. Put in that framework, it made more sense rather than when you hear about some arbitrary decision of making everybody go back to work. So it resonated for us.