

## THE EVOLUTION OF STRATEGIC HUMAN RESOURCES

I am an active member of the Southern California chapter of the National Human Resources Association (a professional association serving the HR function) and I serve as the Master of Ceremony for their annual HR Executive of the Year Awards. The winners of this award are amongst impressive company, including the likes of Disneyland, the Anaheim Ducks, Oakley and Allergan, to name a few. As part of my role, I spend time with each CEO who has nominated their head of HR for the award. I have been serving in this capacity for five years and a theme has become prevalent – Human Resources has evolved...it's no longer seen as only a cost center or compliance department. Instead, it is valued as a strategic business enabler. One of this year's nominees was **Noma Bruton**, Chief People Officer for *\$1B Pacific Mercantile Bank*, and Tom Vertin, the Bank's CEO, said in his address to the 1,000 attendees at the event, "she is embedded in everything we have done strategically." He went on to share that it was her responsibility to integrate the corporate culture and corporate strategy in such a way that they aligned individual and bank goals in order to drive collaboration, profitability, and ultimately, franchise value.

Another observation I have made, however, is that while HR has evolved in general industry, it has been slower to do so within financial institutions. This got me thinking about many of my credit union and bank clients and the dynamic HR leaders with whom I've partnered. These HR leaders are business people first, who look at the business through the lens of HR. They are not relegated to policy policing and benefits administration. These HR leaders are empowered and relied upon to drive strategic initiatives at an enterprise level. For these winning institutions, **strategic HR is not a nice to have; it's a must-have.**

**Barbara Kamm** (former CEO of *\$1B Technology Credit Union*; and former Chief Administrative Officer of *\$50B Silicon Valley Bank*) shared that Human Resources is an equally important part of the Executive Leadership team at Technology Credit Union. And SVB has always been progressive with their approach to human capital. In both institutions HR is part of the Executive Leadership team. At Technology Credit Union, the head of HR (and Barbara's former SVB colleague) has expanded her role to now also serve as the Chief Risk Officer. HR's expanding executive reach brings diversity of thought and perspective that benefits the entire organization.

Strategic HR bucks the notion that HR merely takes care of those who take care of the business. Rather...Strategic HR must be a *driver* of the business. HR no longer serves employees, instead it develops, empowers, and cultivates people. Strategic HR harnesses human capital. The fundamental changes to the industry's landscape have been well documented, and continuing change remains on the horizon. A persistent low interest rate environment continues to exist, along with the evolving needs of a demanding customer base, and an increase of public scrutiny and government oversight...each of these factors is forcing financial institutions to be agile in order to identify opportunities amongst the obstacles. In order to do so, these institutions must invest in the business and understand that their true competitive advantage is their people. Strategic HR ensures an organization's greatest assets are best prepared to support strategic objectives in this competitive environment.

Strategic HR must be in a position to construct organizational designs which clearly align with business strategies. These designs must enable informed decision-making models, allowing for inter- and cross-departmental integration, which in turn results in increased corporate vivacity and employee retention. Strategic HR (i) drives culture, (ii) optimizes operational performance, and (iii) develops leadership. While these three objectives can be sliced and diced a million different ways, we feel they encompass a holistic philosophy around human capital which can drive true organizational transformation.

➤ **The Criticality of Culture** – Corporate culture must be viewed as a business imperative, and not a touchy-feely concept. Corporate culture impacts the bottom line and should be measured just like other key performance metrics. An institution's corporate culture is defined as its psyche, or its identity. It is comprised of beliefs, assumptions, expectations, behaviors, and values of the institution's employees and its stakeholders, and a financial institution's culture and its brand are so completely intertwined that they are often seen as indistinguishable, or even one in the same. As such, corporate culture will either drive growth, or obstruct it. HR is the purveyor of culture and embeds it into the workforce through recruiting, onboarding, training and leadership development. Genuine culture is not a one-time event; it needs to be cultivated year-round.

➤ **Operational Excellence** – A strategic philosophy towards human capital can maximize operational performance. Within credit unions and community banks, people often describe themselves as wearing multiple hats. This is part of what makes these organizations such great places to work, but it also detracts from executing against a plan. Strategic HR assesses

organizational structures with an eye towards optimization and efficiency. Decreasing management layers and clearly defining roles will ensure straightforward decision making. Moreover, this creates an understanding of cross-functional roles enabling better communication and expectation-setting practices. Rewarding the right behaviors bolsters effective operational teams, while ensuring alignment with the overwhelming regulatory landscape and compliance restrictions. Additionally, the right behaviors which are rewarded are the personification of culture and brand. HR can be the driver of operational excellence by constructing, and continually revising, an organizational structure that is aligned with business objectives and making certain the right behaviors are entrenched in order to achieve those objectives.

➤ **Management and Leadership Development** – Leadership sets the tone for every institution, and leadership must lead by example. As we all too often see, just because someone has risen to the level of “leadership” does not mean they are done learning. **Dave Lawson** (EVP, Chief Human Resources Officer at ~\$9B Washington-based Columbia Bank) shared that leaders must understand the impact they have on their entire organization. He explained how financial institutions must ensure that professional development prepares leaders and managers for the multitude of situations which may arise, as that training enables them to provide context-appropriate guidance and support. Development of the balance of the workforce has never been more critical. Moreover, **George Myers** (Chief Human Resources Officer at \$10B California-based Golden 1 Credit Union) shared that your people are what separate you from your competition and they are under attack – under attack from your competition, and from other operating businesses who appreciate their institutional knowledge. He went on to further explain that the right development programs strengthen leadership capabilities and support upward career trajectories, which results in strong retention rates. This focus on personal and professional development is what bolsters longevity.

**In Order for Strategic HR to take hold, HR Must Be Elevated to a Strategic Function** – According to the Harvard Business Review and research conducted by McKinsey and the Conference Board, CEOs worldwide consistently see human capital as a top challenge, and yet they rank HR as only the eighth or ninth most important function in a company. There is a disconnect here. In order for Strategic HR to lead the initiatives described above, it must be elevated to a strategic function that is seen as integral to the business. The head of Human Resources must play a central role as part of an organization’s collaborative decision-making Senior Leadership Team.

Of course, in order for Human Resources to play this role, your head of HR must have the business acumen to do so. This shifts the onus to the HR leader, and this is driving the evolution of HR leaders – they must be business people, not solely HR people. There’s a stark contrast, and Strategic HR knows it. **Bob Gotelli** (SVP, Director of Human Resources at \$2B Bank of Marin) spent the first 18 years of his career outside of financial services, and when he joined Bank of Marin he brought institutional business concepts and HR initiatives to the bank which were foreign. But Bank of Marin embraced the change and the idea that HR can be a driver of transformation. Many of today’s highest performing HR leaders have held roles in other functions and have rotated throughout the bank or credit union (and often times even in different industries). This gives them an understanding of the cross-functional relationships and the interplay therein. Moreover, it ensures they truly understand the business of their institution. These HR Leaders do exist, but until HR has been elevated to a strategic function within the financial services sector, they will not look to the industry for their professional development.

#### **HUMAN CAPITAL REDEFINED – THE NEW JOB DESCRIPTION**

- HR’s expanded role includes developing a human capital philosophy, and setting the strategy to build a Corporate HR function that is responsive to, and anticipatory of, the ongoing needs of the institution.
- Dynamic HR leadership must oversee all people initiatives including the areas of succession planning, talent acquisition, talent management and leadership development, organizational and performance management, learning and development, executive and employee compensation and benefits, employee relations, and employment-related compliance.
- Learning and Development must be deployed enterprise-wide in a way that provides managers the tools to assist in the supervision and motivation of their direct reports, as well as helps employees grow their skillsets increasing their upward trajectories.
- HR ensures that appropriate performance management philosophies, programs and practices are implemented and executed in support of a culture that values and rewards accountability and high performance.
- HR data is too often overlooked when assessing bottom line growth. In addition to retention rates, financial services firms shouldn’t miss the opportunity to track metrics that correlate to both operational excellence, and career development.

***About the Firm and the Author***

McDermott & Bull is a full-service executive search firm serving the Western region of the United States. The Firm's Financial Institutions Practice Group partners with boards and senior leadership teams to align talent strategies with business strategies for banks, credit unions, fintech companies and investment advisory firms. Clientele include the likes of BNY Mellon, First Republic Bank, Silicon Valley Bank, Golden 1 Credit Union, First American Trust Company, Bank of Marin, Western Federal Credit Union, Luther Burbank Savings, Evangelical Christian Credit Union, East West Bank, Bank of the Cascades, and United Capital.



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