

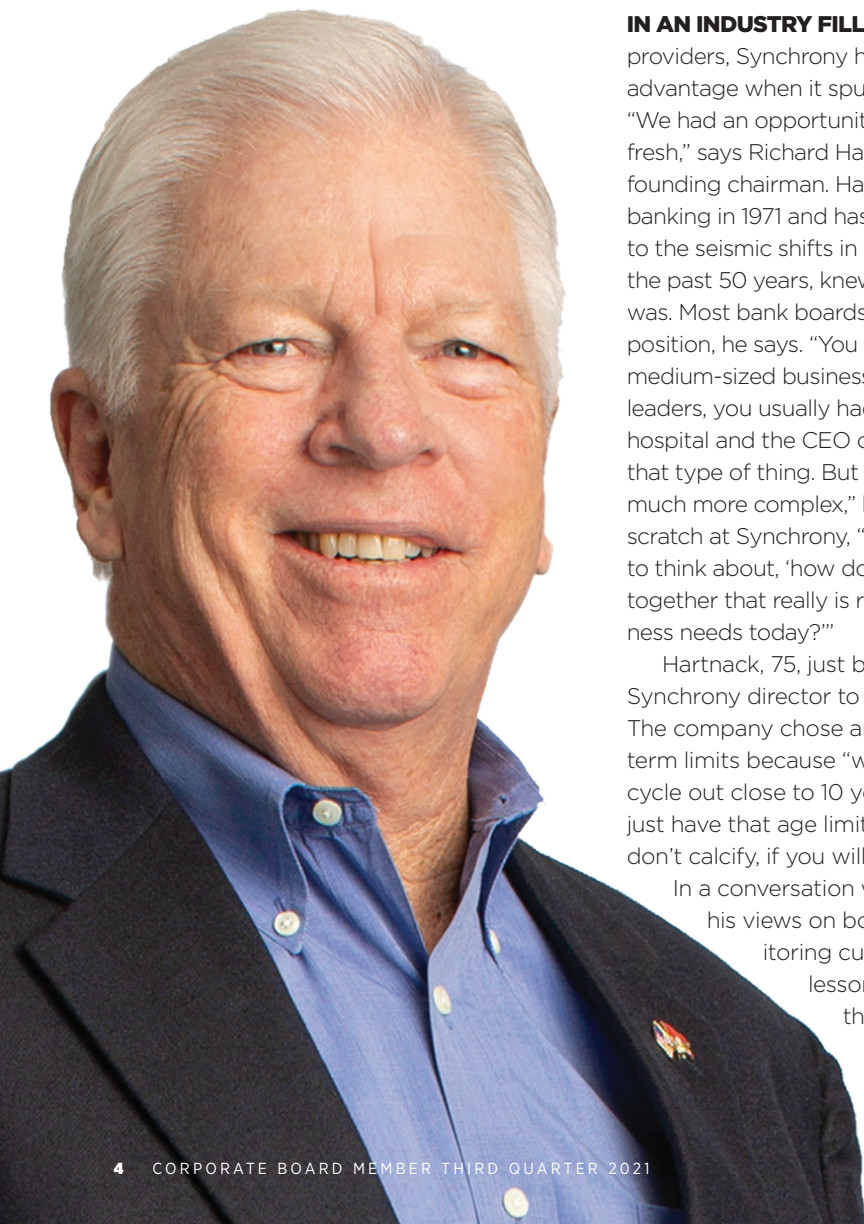


THE AGENDA

‘WE HAD TO TURN ON A DIME’

GE-spinout Synchrony gave founding chairman Rick Hartnack a once-in-a-lifetime shot at building a board—and a company—from scratch. Six years and a global pandemic later, he shares takeaways from his tenure—and thoughts about the road ahead.

BY C.J. PRINCE



IN AN INDUSTRY FILLED WITH LEGACY

providers, Synchrony had a key governance advantage when it spun off from GE in 2015. “We had an opportunity to start completely fresh,” says Richard Hartnack, the company’s founding chairman. Hartnack, who started in banking in 1971 and has had a front-row seat to the seismic shifts in financial services over the past 50 years, knew how important that was. Most bank boards had a similar composition, he says. “You had local small and medium-sized business leaders, community leaders, you usually had the CEO of the hospital and the CEO of the university and that type of thing. But then the industry got much more complex,” he says. Starting from scratch at Synchrony, “we had the ability to think about, ‘how do you put a board together that really is responsive to the business needs today?’”

Hartnack, 75, just became the first Synchrony director to age off the board. The company chose an age limit rather than term limits because “we figured most would cycle out close to 10 years anyway, so let’s just have that age limit to be sure that we don’t calcify, if you will.”

In a conversation with CBM, he shared his views on board turnover, monitoring culture, the biggest lessons from Covid and the greatest challenges boards face in the year to come.

In building Synchrony’s board in 2015, what did you prioritize? And what sort of diversity was important?

Different forms of diversity bring different strengths. We were able to have what I would describe as real 21st-century skills on our board. We have a former CEO of a cybersecurity firm, for example. Cybersecurity is just a major issue in our industry, especially because money’s at stake, and so having the best possible cybersecurity skills on your board is a big advantage. Also, the fintech segment of the financial services industry is very active, and we brought on a director who had significant digital electronics payments experience as well as the experience of integrating payments into other digital devices for our company.

When we started the company, when we broke away from GE, we were among the leading telecommunications users in the country—15,000 or so people talking on the phone all day, every day. So, we brought on an executive from the communications industry. Tech has played a bigger and bigger role, so we looked for people with tech experience and, of course, being in the credit card industry, we wanted credit card experience. So I had some, and Roy Guthrie came from Discover. So we were able to build up a board step-by-step that really gave us the hard skills.

Then we looked for people that would bring gender and ethnicity diversity be-

cause we wanted our board to represent the points of view of our employees and our customers. We ended up with 12 people, including four women, four minorities and two veterans. In many respects, we mirror the markets we serve, the investors, the clients and corporate partners. And it makes for a livelier conversation, for sure.

From the start, you've focused on employees as critical stakeholders.

Yeah. Especially at our company, because the only connection our customers have with us on any regular basis at all would be by telephone—or digitally, which doesn't involve a person—but we handle a lot of voice-to-voice telecommunications connection with our clients. And we need those 10,000 or 11,000 frontline employees to be deeply engaged in the company, deeply invested in our cultural beliefs and our business beliefs about how we deliver product and what's important to the company.

So, when they're making decisions, those employees are really, to the extent we're capable and successful at it, reflecting the will of our CEO, but in a one-to-one conversation with the customer. If we get the employees understanding where the company is going, engaged in that, bought into that, then they represent the company to the customers, just the way we want it represented. That's helped us.

There's a lot of hype around stakeholder capitalism today. What's your take? What does it really boil down to for boards?

It's a good question. My reaction is no more than one person's opinion, but people want to do business with companies that they believe have shared values, have an interest in the client's well-being and that they can trust because we constantly have to give clients choices, and those choices are more palatable if they come in a way that the client trusts.

I think the broader question of stakeholder capitalism or stakeholder investing is everything from how we treat the communities we serve to how we deal with our labor market as a supplier of health services and retirement services for our employees, all of that's part of the stakeholder pitch.

Now, with the interest of more and more investors, we're getting deeply involved in that whole topic of ESG, where the envi-

ronment enters, and even companies like ours have a lot of opportunity to improve our environmental footprint. We actually improved our environmental footprint a lot during the pandemic because our use of our office buildings went down, our use of travel and airplanes and everything else went down. We will look really good when we add up our carbon footprint from 2019, compared to 2020.

You decided to make remote work a post-Covid choice for employees. Why?

We've had really good luck during the pandemic with this. It has worked out well, our service levels have been every bit as good as they were before—in fact, in some cases actually improved—and we want happy, engaged employees, and if they want to work at home now that we know how to do it, that's a win-win for us. The employees are getting what they want and we're getting what we want.

Time will tell, but I would guess this will give us the opportunity to achieve greater stability in our workforce, because if not everybody's offering it, we'll have a bigger market share of people who want to work at home. And those folks won't have maybe as many opportunities with other companies, so that might lead to longer-term employment. That's really helpful because experience equals quality service every time.

In piloting that, how did the board monitor success and the risk involved?

We actually took a small group of directors down to Arizona, where we were piloting it to engage with employees to find out how work from home was going to work for us. That made it simpler when we got the decision that, oh my God, we're going to have to have everybody working at home. We were able to say, hey, that's not a huge stretch because we've already been doing it. We've got the roadmap. Let's just execute. That's what we ended up doing. The operational risks of it, security, things like that, we thought that through a lot ahead of time, so people working at home have a company computer, or thin client, that's been designed specifically for the job so they can't see everything at home about a client, they can just see what they need, which is not typically protected information.

So, then the risk really gets down to, can



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we make training as effective and efficient? Can we retain the cultural advantages of getting everybody together? Are there other issues to mitigate? We're doing a hybrid system, so those who want to come to the office will be able to, and those who want to work from home will be able to. We'll occasionally bring everybody together, either through these kinds of calls or by bringing them into a job site hub where we can talk to most of them face to face.

Do you feel Synchrony's culture is strong enough to move through virtual walls?

I think so. I mean, we've only been at this a year, or a little bit more for our Arizona colleagues; but culture at the company is kind of the accepted way we do things, and that's everything from how you relate to your coworkers and how you treat each other to whether everybody gets to work on time. There are just 1,000 things around the culture of a company. If we keep everybody behaving in ways that are consistent with the positive elements of our culture and we make sure that if people stray, we bring them back, then I would say we're very confident that the Synchrony culture can continue.

There's also an element of work at home that's a little unique and a lot of people don't mention it, but it enables us to open our jobs to a wider range of people—people with disabilities, people who have unique childcare or senior care duties that our situation will allow them to work and meet those responsibilities. That really gives you as an employer a shot at a lot of good people that could not otherwise work.

How else do you monitor culture?

It's something we work at. All of our directors sign up to make at least two site visits a year—when we're not in a pandemic. That allows us opportunities to have our directors in roundtable discussions directly with employees. The top management of the company usually excuses themselves from those meetings, so that the directors have pretty direct, unfettered contact with employees in different work sites.

We'll adapt that now to Zoom, where

we'll have video calls with employees to put the directors up against employees where they can have personal conversations with them. I think you get a pretty good feel, not from one conversation but by the time you've had 20.

In my own experience, I've always spent a lot of time out in branches, talking with employees. If you open yourself up and ask leading questions, people tell the truth because it's important to them. If there's something wrong, they let you know because generally they want to get it fixed. They wouldn't be working for us if they didn't like some things, so if something was wrong, they tell you, then we try to fix it.

What was the biggest lesson you came away with in this past year with Covid?

For us, the biggest lesson was practicing at the board level the same kind of agile approach to business that the company had been moving toward, had been executing on and had been talking about. Because what we learned in the pandemic is that we had to turn on a dime. We had to make very fast decisions. So, the board, we all participated in agile leadership and agile response to problems. A lot of companies did this. I think it went particularly well in our company, we felt very good about how we were able to respond.

[For example], we had to change our incentive plan not only for top management but for all the senior officers, because we had an incentive plan that was blown out of the water on the second day of the pandemic. We had expected that

there'd be a lot of bad credit, but what actually happened was there was a lot of paydown of credit, which changed the economics of our business really quickly. So, we knew that we needed to put in place a new set of goals and objectives that fit our unique circumstances caused by the pandemic.

We got that done quickly—in one meeting—and that enabled leaders in the company to go out and talk to people about the fact that look, the incentive plan is almost out the window, but we're putting in place new measures, new metrics, new goals, new objectives. If we do well on them, we'll still have a good incentive payout at the end of the year. It worked out for us that way.

Over the coming year, what is the biggest challenge facing boards?

In our company, I'd say the biggest board challenge is continuing to support and encourage the multidirectional efforts of our management teams because we're still working on improving our game in the digital space so that our digital connection to our client and our corporate partners is best in class. That's a big job.

And we also have to focus on getting the return to work exactly right, because the last thing we want to do is return to work and end up making a judgment mistake that ends up in a lot of younger people who haven't had their shots yet getting sick. So, continuing to worry about the safety protocols we learned in the pandemic and not considering that risk behind us is still very much in front of us.

We're like all businesses where we have a portfolio of businesses and we need to make sure that we're continuing, despite all the other challenges, to put more resources into our higher-growth, higher-return opportunities. We've got legacy portfolios that are very important to our bottom line, and we need to invest in those to keep them competitive, but we've got to be sure we're letting our best new things reach their full potential because they'll be our legacy businesses 10 years from now, and we've got to make sure we have strong legacy businesses 10 years from now. **CBM**