

CLIENT ADVISORY BOARD

THE RISE OF HUMAN CAPITAL AND ENGAGEMENT

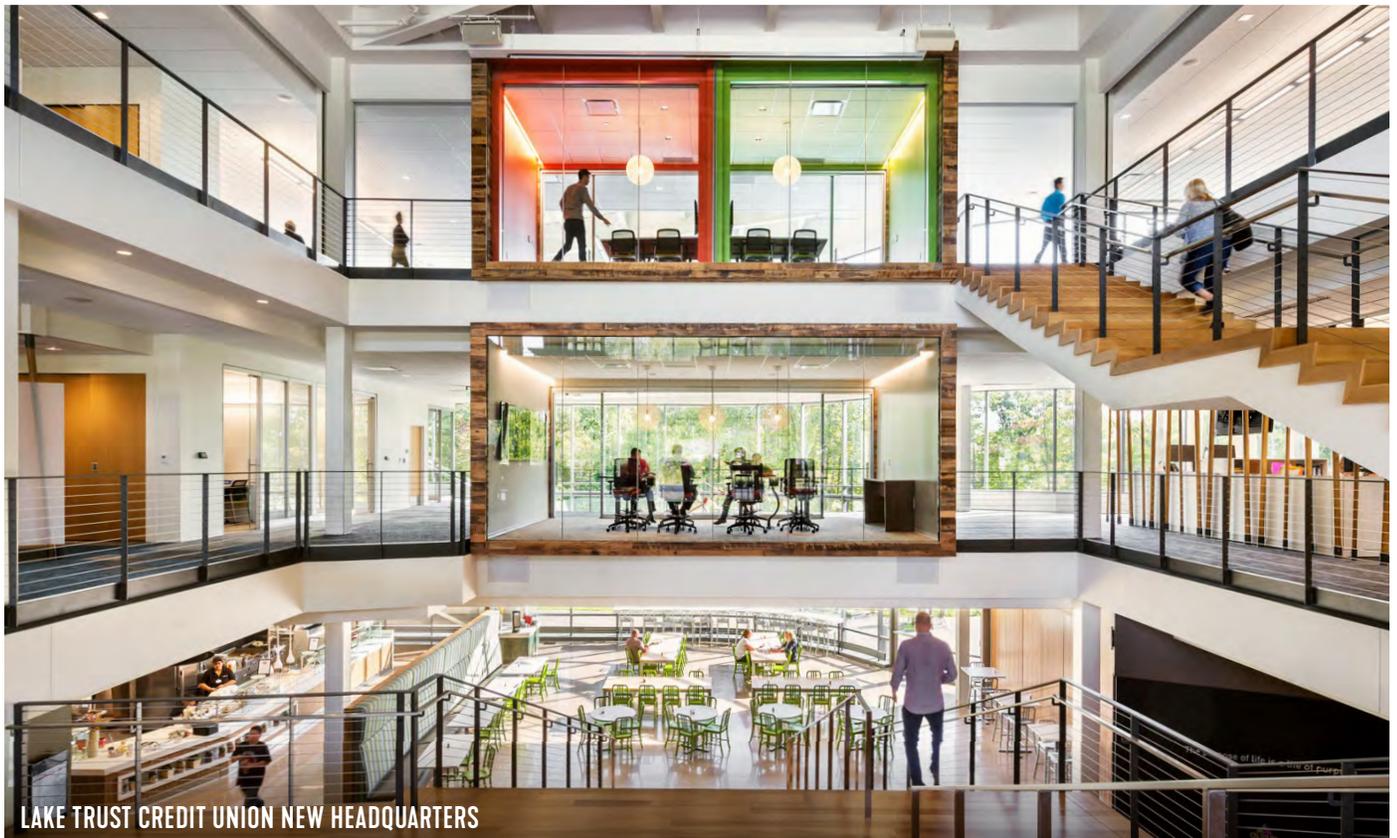
SMITHGROUP



CLIENT ADVISORY BOARD SUMMARY

At SmithGroup, we believe it's imperative that our design approach is aligned with our clients' missions and real-time interests. Our Client Advisory Board was created as a forum to ask questions and explore ideas with organizations on the leading edge of the business world. We learn from these exchanges and energize our design process with our shared experiences, evolving our practice towards more creative engagement with their business models. Our forum is composed of corporate and institutional real estate executives, facility directors, workplace strategy leaders, and human resource professionals from across several industry sectors. Each year's agenda begins with a common theme that is often derived from the most spirited exchanges we heard in the previous year as a sort of ongoing dialogue.

One of our Client Advisory Board themes was The Rise of Human Capital and Engagement, a subject that arose out of a roundtable exploration of Organizational Culture and the persistent observation that even with a company's genuine support of internal cultures, there are complex issues regarding employee engagement in the workplace. Engaged employees – meaning the ones that freely share ideas, are driven to learn, and are more willing to make sacrifices for the company's mission – have a long term view of their role. The workplace itself becomes a vehicle for supporting this engagement, and that is precisely where we sought to better understand how our design ideas can help recast the definition of "employee" to "advocate, provocateur, and innovator."



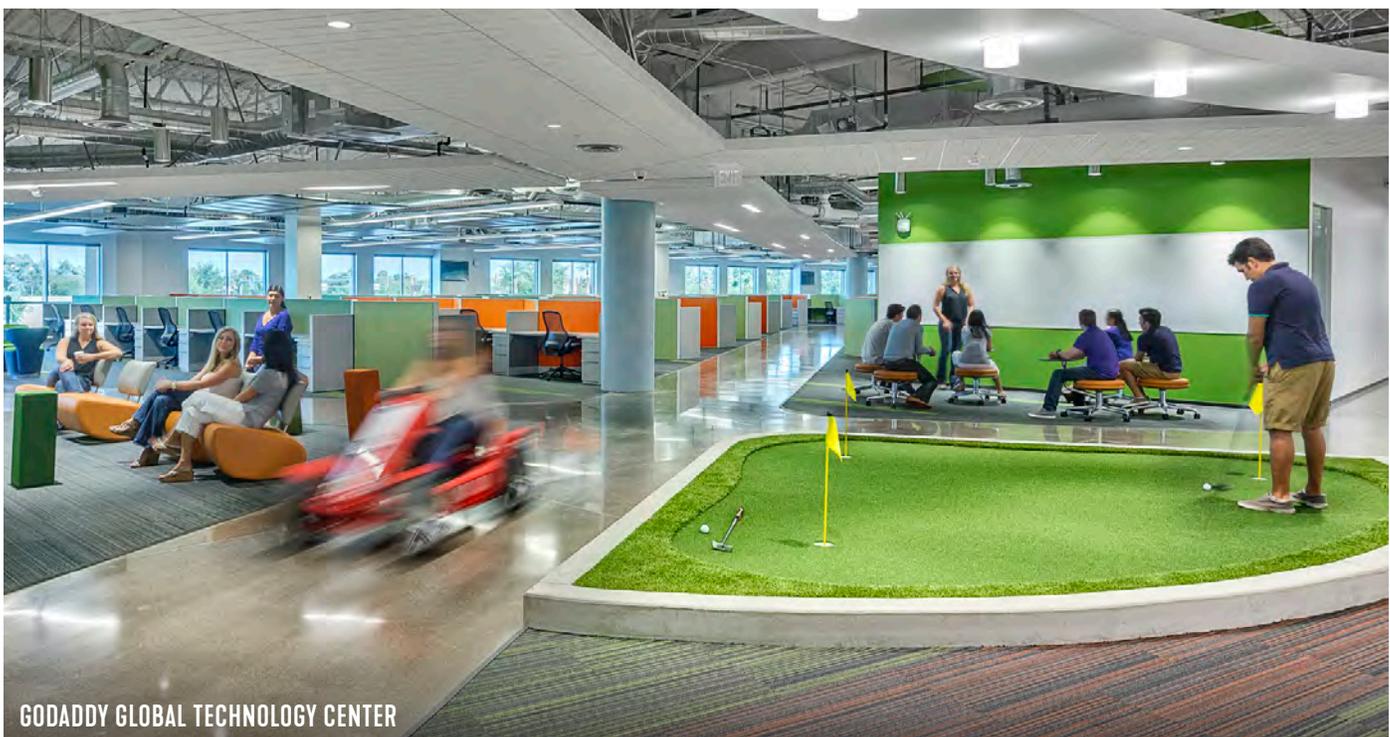
HUMAN CAPITAL: THEN VS. NOW

In the not-so-distant past, human capital was defined in limited, objective terms. The benefits in terms of effectiveness, agility, and culture were part of an intangible class of assets. In the contemporary workplace, there is now a serious focus on employee engagement, pushing human capital into a more holistic definition that takes into account the ways in which an individual worker is the essential component of organizational performance. Rex Miller, our guest speaker for the meeting, pointed out in his book *Change Your Space, Change Your Culture* that people are the most powerful untapped potential in the workplace. Today, human capital is defined as the human potential, accumulated knowledge, creativity, and cultural strength that a company can leverage to move forward. Though we have seen and participated in

this shift for some companies, we were still surprised at what we learned from our Client Advisory Board's spectrum of 16 companies, ranging in size from Fortune 10 to regional charitable organizations.

This year, the meeting took place at GoDaddy – a workplace environment packed with energy, fun, and innovation. Honestly, when we arrived at GoDaddy we thought one thing about human capital – which its raw force is what unleashes a company's potential. However, we came out the other side realizing the true indicator of the potential around human capital is an organization's ability to adapt, and specifically, to navigate change management.

This piece represents our best attempt to take you on our journey and hear from the many voices at the table.



ADAPTING IS A CONSTANT



Every single one of the Board members had change on their mind – this struck us immediately. “The rise of human capital” discussion quickly became a discussion about the ways their companies are trying to adapt. After all, for many of our members, the people who built the processes that ushered the company into the modern age are Baby Boomers at the edge of retirement. In the case of younger companies, such as Google, the problem is quite the opposite: the processes have to “grow up” as those once-quite-young employees find themselves closer to mid-life. It’s worth noting that six of the 17 companies present (including SmithGroup) were founded in the 19th century; the rest were evenly spread over the 20th century. Yet they are all facing the same pressures to adapt.

It’s hardly just a matter of age, though. Within just the last few decades, the way we work has dramatically changed. Technology has changed. Ideas of leadership have evolved. The unique aspect of our Advisory Board this year was that all of our members were actively engaged in proactive forms of change management, not merely observing or coping with change. Some companies were developing a “Workplace 2.0” model, some several iterations beyond, each with a common theme of employee engagement and ongoing adaptations unique to their own internal cultures. Although the organizations varied widely in size – from 200 employees to over 260,000 employees – we found three common threads that ran throughout.



GENERAL MOTORS WARREN TECH CENTER TOWN COMMONS

INCLUSION AND TRANSPARENCY SET THE TONE FOR SPACE ALLOCATION

Space follows function. More and more, what you do determines your space, across the entire structure of the organization. Companies are channeling the idea that “we’re all in this together,” beginning with the leadership. This egalitarian approach to human capital is a sea change from the Mad Men-era.

REAL ESTATE DECISIONS ARE DRIVEN BY INNOVATION & PRODUCTIVITY

Where square footage once drove decisions, now organizations are led by ideas derived from a deeper understanding of mission and vision. More than ever, workspace design is a response to innovation (and a catalyst for encouraging yet more ideas). We learned that an enlightened view of human capital ensures that everyone feels invited — even obligated — to contribute new ideas.



THE HEALTH AND WELLNESS OF THE WORKFORCE IS A PRIMARY DRIVER IN WORKPLACE DESIGN

The workplace has a critical impact on each employee's experience of health, happiness, and sense of well-being. Organizations have discovered that a sincere investment in these areas is also a beneficial enhancement of human capital that pays great dividends in the actual work process.



THE PARK

Only United Way can put together all the services in one place.

THE MARKET

WHEN IT COMES TO SPACE, COMPANIES AND EMPLOYEES ARE IN IT TOGETHER

How do you increase the level of willingness among employees to bring more value to your company through their time, effort, or ideas? This is the question each of our Advisory Board members is trying to answer. Embedded in that question is another, more basic issue: why does an employee come to work? Our members all seemed to agree that a certain kind of cultural change was needed not just to “keep up” with employees’ evolving reasons for coming to work, but also to create the very energy that engages and connects employees. It’s a delicate balance, as our members are finding out, because you can’t force that connection on employees. A workplace’s culture works best when it develops from leadership’s mission and vision aligning with the grassroots cultures that rise out of the demographic and generational character of the workforce. When organizations create workspaces in an honest reflection of that overall culture, our members find that the workplace environment empowers their employees to higher levels of achievement.

Several of our members talked about how they’re doing this by moving away from entitlement and toward inclusion, utilizing transparency whenever possible. American Express, which counts 63,500 employees, is a great example of this. Every position there has a built-in screening process – an evaluation of the kind of work the employee does. You get the space needed for that job. In other words, it’s about what you do and how you do it, not just who you are. The nature of the work determines the space, not the “rank” of the person. It’s a transparent process that starts the minute an employee is hired.

There’s also increased transparency and inclusion in the pacing of change – “versioning” the change so that employees feel part of the process, versus simply forcing it on them. The Washington, DC-based GSA Headquarters has started to use this “version” approach for its 11,500 employees across the country. The full version has shared or unassigned desking, half the population typically mobile in distributed ways, and the national head of GSA sitting in the open just like everyone else. But instead of immediately jumping to the 2.0 version, GSA had versions like 1.2 and 1.3 in between as a change management strategy. For its part, American Express has empowered leaders in each department to select a “change management champion.” The change management champion is responsible for communicating what the design team is doing, why decisions have been made, how the new space will work, and the details of how the sharing works. It feels more like change happening from within, versus change being forced upon employees in an all-staff presentation by an outside architecture firm.

A key tenet of inclusion is buy-in, and that has to start at the top. The CEO of The Valley of the Sun United Way and his senior staff started modeling the behaviors they wanted to achieve in the renovation even before the renovation started. They gave up their private offices, first moving to a temporary space, and then to the final space. Along the way, they learned to become mobile. Their visible, public efforts at transformation would have been unheard of, even a few decades ago, when entitlement was still standard. Over and over again, we heard that organizations really depend on leaders to take the reigns and start the ball rolling. If the leaders buy-in, everything is smoother.

REAL ESTATE IS THE ENVIRONMENT WHERE THINGS HAPPEN



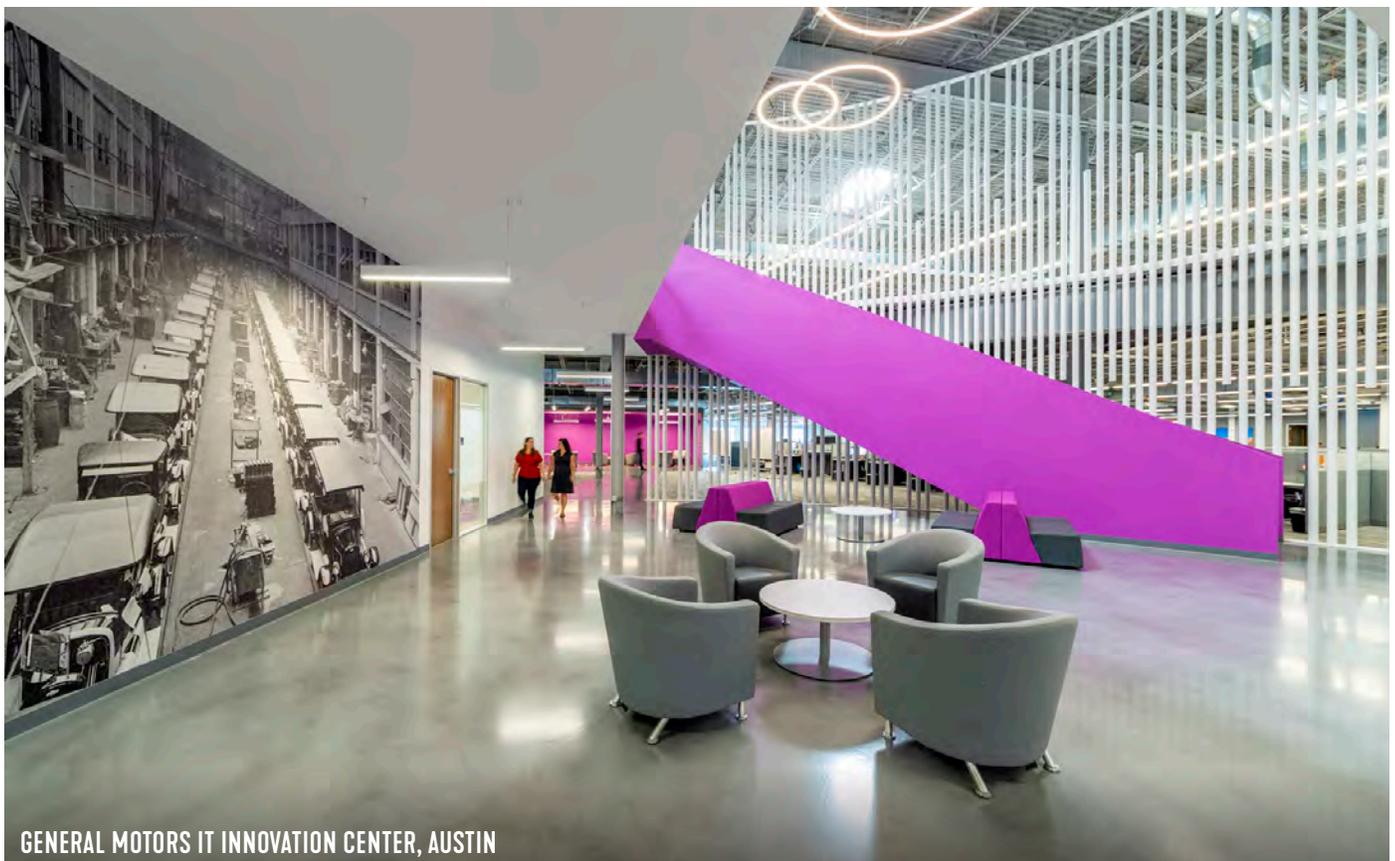
INTERIOR ENVIRONMENTS HEADQUARTERS

Simple space utilization metrics used to make sense for companies, when human capital mostly meant bodies in the space. From our modern perspective of human capital, companies realize real estate, while crucial, is really just the shell for something else to happen. As our guest author Rex Miller astutely outlined in *Change Your Space, Change Your Culture*, real estate space is usually a small component of the company's bottom line. However, when it's done strategically, the environment can leverage a huge impact on engagement, innovation, and productivity.

There is a wider dialog happening about how real estate decisions and design can help the individual employee thrive and the organization succeed. Several of our members and colleagues are actively participating in this human capital-centered dialog, trying to innovate new thinking around productivity. They are moving from top-down or command-and-control culture to one where new ideas are expected of all employees. These companies are aiming for a permissive culture of constructive dissent. After all, that's usually how the best ideas spring forth. Our members talked about how the notion that "one size simply does not fit all" is now widely accepted.

A common theme among the members was mobility in the workplace. Companies recognize that employees are more fully engaged when they can choose the type of setting that works best at any given time to get the job done. Dave Cavenee from American Express stated simply, “It’s about what we do, not where we do it.” They’ve created “scrum rooms”—essentially rooms that are highly flexible which employees can use to accomplish whatever task they’re doing. Your space can either increase productivity or reduce productivity. American Express is opting for increasing productivity.

There is even new thinking around where to hold real estate, and what factors are most important. For example, GM has always been synonymous with Detroit. The history in Detroit and its roots there are an important component of their brand and their culture, of course. However, holding all of their real estate in Detroit may not drive either innovation or productivity, because of recruitment. The offices they are renovating first are the IT Innovation Centers outside of Detroit, in areas like Austin and Atlanta. Those are the kinds of spaces that will help them better recruit and innovate.



GENERAL MOTORS IT INNOVATION CENTER, AUSTIN



IT'S ABOUT HELPING EMPLOYEES BE WELL, NOT JUST HAVING THE COMPANY DO WELL

The old saying about your health being the most important thing in life? Turns out that (a) it really is true and (b) it has everything to do with human capital. Plenty of workforce wellness initiatives have sprung up in light of alarming statistics about lost revenue from sick time, rising insurance costs, and rising medical costs in general. But these days, employee wellness has moved beyond a few treadmills and bulletin boards plastered with posters about 10,000 steps. Health and wellness of the workforce is becoming a primary driver in workplace design, throwing into question ideas about the physical, mental, and spiritual ramifications of design and culture. Our members talked about issues such as improving indoor air quality, encouraging movement throughout the day, healthy eating, noise impacts, and daylight. In this view of human capital, organizations aren't merely concerned with the physical building and its environmental impacts, but also the individual worker and their health and sense of internal well-being.

Whereas generations of the workforce in years past tried to stay healthy despite the demands of their jobs, today's workers aspire to be healthy because of their jobs. That shift is having a major design impact at places like Google. Kristin Chiles from Google told us that Google's goal is to create amazing work environments that enable happy, healthy and productive employees around the globe. Google's workplace design philosophy is focused on creating workplaces that improve Googler experience, health and sustainability. While their goal to create innovative workspaces to help employees perform at their best every days hasn't changed, how the company does so continues changing to best support Google's open and collaborative culture.

Along the same lines, companies are realizing the importance of well-being in a more spiritual sense – such as social responsibility. Our members talked about how this is of growing importance to the younger generation – feeling connected not just to the company mission, but to important things the company stands for and supports, as well as the “causes” that spring organically from the employees themselves. For example, Wells Fargo may have a reputation for crunching numbers, but at the end of the day, the company also supports other things that align with their values. They are asking themselves things like: how can that alignment become apparent inside the office? What can we do to bring in the community? How can the space itself enforce that bond?

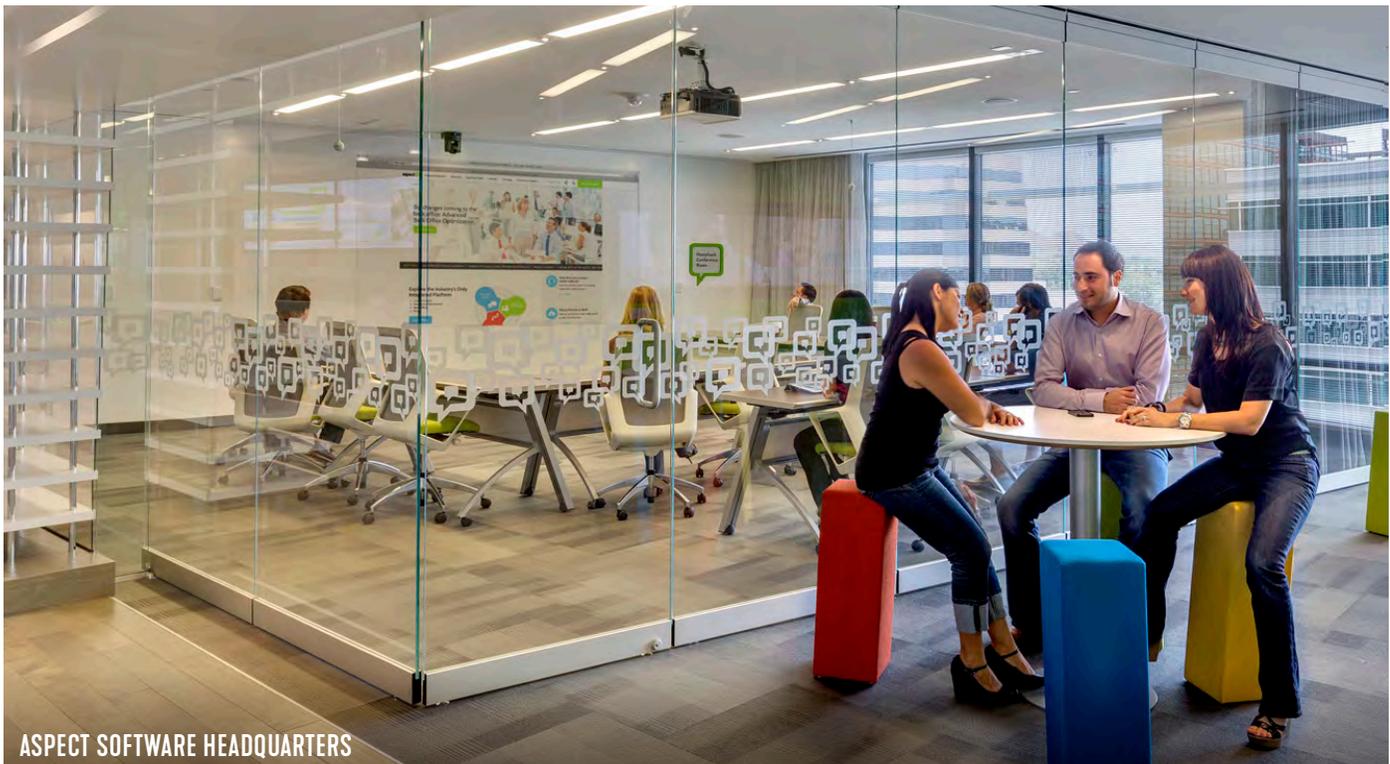
Valley of the Sun United Way redesigned their office space to be easily divided into sectors, with modular, multipurpose areas that function as workspaces during the day for employees, but could quickly accommodate 200 people for evening use – for fundraising, for example. They want the notion of social responsibility to take shape within the space. Our members were very excited about this, and the discussion went all over the place – including GoDaddy talking about how a big part of connecting to well-being starts with simply helping people socially connect in the office. The more people you know (even if they're not in your department and you have no regular work dealings with them), the happier and more fulfilled you are. Their space is all about trying to connect people, whether it's in the little game rooms scattered about, or the giant slide between floors. Calvin Crowder, Director of Corporate Facilities and Real Estate for GoDaddy, put it simply, “the culture promotes connection and a playfulness, but it's really the design of the workplace that encourages it.”

WE'RE READY, ARE YOU?

The challenges surrounding workplace design are becoming more personal in nature, more “human,” you might say. As organizations sharpen their focus on employees and move along this continuum of change, it’s more important than ever to focus on inclusion, transparency, and engagement with their employees. In our experience, what works best is to bring employees along early, build consensus, and facilitate their participation in the change. Organizations should identify what will support and enable the change they’re proposing – and what obstacles are standing in the way of that change. And lastly, companies endeavoring to change must leverage managers and

department leaders to think about and implement organizational changes within their groups. That way, the company and its people get to utilize the design on a daily basis, just as it was intended.

We’re all after the same thing: to get long-term, sustainable buy-in from staff, so that we can maximize benefits and minimize disruption. Organizations have to think more strategically to do this. So do the design firms charged with creating the more healthy, dynamic, and effective workplace. At SmithGroup, we are ready to do our part – because as much as we believe that great design moves the world, we know that it’s human beings who must live and work inside of it.



ASPECT SOFTWARE HEADQUARTERS

THANK YOU TO ALL OUR PARTICIPANTS

American Express

Auto-Owners Insurance

Avalere Health

DTZ

Ford Motor Company

General Motors

GoDaddy

Google

Intel Corporation

McKesson Corporation

mindSHIFT

Plante Moran

U.S. General Services Administration

Valley of the Sun United Way

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