Talking Talent and Disruption in the Motor City

By Judy Warner

Participants

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There is arguably no other city in America that so exemplifies the boom-and-bust cycle of manufacturing or the displacement of working- and middle-class workers than Detroit. In Birmingham, Michigan, on the outskirts of the Motor City, directors assembled for a morning roundtable on "Emerging Audit Committee Challenges," co-hosted by KPMG's Darrin Schultz and Philip R. Smith and the NACD's Christopher Y. Clark.

The new revenue recognition standard, as well as risk and controls, is clearly top of mind. Yet this particular group, who live and work in Greater Detroit and thus have experienced the rise and fall of the automotive industry up close, quickly elevated the discussion to a big-picture perspective on technology trends.

Topics focused on the larger implications of automation for boards as a whole; the promise and potential threat of artificial intelligence; and how government, business, and educators must work as one to reskill workers. Questions were also raised about what a corporation owes its employees when their jobs are eliminated because of automation, and the role of the board in ensuring the company is not disrupted or put out of business by an emerging technology.

Anne M. Mervenne set the stage when she noted that a story in *The Wall Street Journal* the previous day predicted that retail jobs in particular were ripe for extinction because of automation. A 2015 study by Citi Research, co-authored with the Oxford Martin School and cited in the *WSJ* article, reported that two-thirds of U.S. retail jobs are at "high risk" of disappearing by 2030. Moreover, a McKinsey Global Institute survey released in January estimated that 54 percent of all retail jobs—representing some 187.5 million workers around the world—are subject to elimination by automation.

In addition to the social and political implications of such job loss, Mervenne said she is taken by the speed and intensity of change and the fact that everything is going "digital, digital, digital."

A student of history, Smith noted that unlike the Industrial Revolution, where mechanization increased productivity at a time when there was a labor shortage, the inverse is true of today's technological advances: automation is being used to increase productivity sometimes at the expense of lower-level workers. That has implications for the labor market and for talent development, and will continue to present special challenges for today's boards, said Smith, who is KPMG's national audit industry leader for industrial manufacturing. He advised directors to challenge their organizations to be early adopters of technology. "You don't want to be a laggard, because that will put you behind and put your company at significant risk," he said. "Do you understand the opportunity when workers and automated technologies work in tandem?"

The capital requirements for investing in new technology have also been lowered. "When we talk to people responsible for robotic process automation, they're saying their return on investment is really quick, like within a year or two," said KPMG's Darrin Schultz.

Of concern to Dennis W. Archer, who worked his way through law school as a public school teacher and served two terms as mayor of Detroit from 1994 to 2002, is the state of public education. According to Archer, we still "have not learned our lessons as a country. We need to have some kind of focus and leadership so that we can properly prepare our children for the jobs of the future. Otherwise, [as a country] we are going to see the math and reading scores continue to go down. We want to be uplifted. We're going to have to be more focused and take advantage of the lessons learned."

Oftentimes, conversations about skills gaps and retraining only reach the board level when they become risks to operations, involve significant capital expenditures, or begin to impact the company culture. It also depends on which country the board is sitting in.

Canada and some European countries, particularly the United Kingdom and Germany, have regula-

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Philip R. Smith (left), Anne M. Mervenne, Dennis W. Archer, and Darrin Schultz

tions regarding the displacement of workers that are more stringent than those in the United States. Roy Verstraete, who in addition to running his own executive consulting practice serves on the boards of multiple private multinationals, volunteered that legal frameworks in Europe and Canada require board-level discussion when displacing workers. "It's much less discussed at a board level in America. I don't like to say it is a lesser concern here, just that legal frameworks are different," he said.

Rather than view technology as a potential threat and assume a defensive position, Leslie A. Murphy recommended that boardroom discussions focus more on opportunities for new business and the adoption of enabling technologies. "How quickly should we start to move up the technology curve, and how much do we need to invest? These are the questions I believe boards should consider. There is a huge opportunity for businesses and the boards that govern them to determine the role of evolving technologies. It is also a lot more interesting than figuring out how to go on defense," Murphy said. "When we're all having our strategic planning sessions and boardroom discussions, we've got to get away from protectionism and not hold on to what was, because disruption will affect every one of us."

That inspired a question from John Krienke: What is the role of the board in disruption? He recounted how Eastman Kodak sold off what would later become the most profitable remnant of its collapse, the Eastman Chemical Co. Kodak leadership misunderstood its core competency as a camera and film company rather than an expert business in applied chemicals. Other examples abound. University of Michigan professors C. K. Prahalad and Gary Hamel are credited with seminal work on this subject in a May 1990 article for the *Harvard Business Review*. "So I am wondering, in the face of today's disruptions, what is the board's role in helping a company understand what its core competencies are?" Krienke asked.

"We can raise the question," replied Verstraete, "and then we have to provide management incentives and support rather than 'how many pennies per share is it going to be next quarter.' We could add into their compensation and their reward systems action in this area—that's what the board can do."

Resist complacency and be persistent, advised W. Howard Morris, director at Owens-Corning. "I look at each of our main businesses and ask, is there a disruptor that I know I'm not thinking of, but that [management is] thinking of? They live it, so it's constantly nudging not just at strategic planning time but throughout the year and at every meeting."

Another provocative question asked by KPMG's Ari Weinberg zeroed in on when investments in artificial intelligence and the displacement of workers make it to the boardroom. "Some of these issues are moral questions in terms of what corporations owe their stakeholders," replied Mervenne, "and employees are important stakeholders."

In his experience, Jamal Farhat said that such discussions should take place at the board level with a macro perspective on leadership and talent development. "Boards in general need to challenge the thought process for strategic planning for a company and question the effect of market competition and changes in technology on the company strategic positioning," he said.

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