

Steve Hardardt is Senior Vice President- Human Resources and Business Administration and joined **tw telecom** in 2007. Prior to joining **tw telecom**, Steve was employed by Johns Manville Corporation as Vice President- Human Resources & Communications for their Building Products Division. Previously, Steve held HR leadership roles with several industry leading companies including Honeywell, Monsanto, Hasbro, Frito-Lay and Dow Jones & Company. Steve earned his BS degree from Cornell University's School of Industrial and Labor Relations.

**Greg Selker:** Thank you so much for participating in this leadership interview. I'm excited to get to know you a little bit better, and hear about what you've been doing at **tw telecom**.

**Steve Hardardt:** It is my pleasure. I am glad to have the opportunity to share with you some of the opportunities and insights that we have identified that have and will contribute to **tw telecom's** continued success.

**Greg Selker:** I'd like to talk about a topic that's on pretty much everybody's mind, our economy. How is the current economic downturn affecting your overall recruitment, talent management and talent development strategies today?

**Steve Hardardt:** We have to this point been fortunate that our performance has continued to be very favorable. On Feb. 10<sup>th</sup>, we announced our 2008 year-end financial results, which was the strongest overall financial performance we have had. Our outstanding reputation has really helped us be in a great position from a recruiting perspective. So whereas, I think there may be challenges for other organizations to attract talent, our success has provided us the opportunity to think about how we can be more selective in our recruiting processes.

A great example of that is in our commercial group. Our sales leaders and our human resources team spent time analyzing those individuals who have been most successful and the underlying characteristics that lead to peak performance. We have now begun to use a variety of techniques to screen for individuals we think have a higher probability of success. This process coupled with thoughtful on-boarding and assimilation has led us to expect sales new hires to ramp up to full productivity even more quickly. That's just one example where we think the difficulties in the economy have allowed us to be more thoughtful and more effective in finding the right complimentary talent that will help us continue to be successful going forward.

**Greg Selker:** Can you talk about your selection process and how you make certain that the selection criteria is customized for not only the position, but also the culture that you've created at **tw telecom**?

**Steve Hardardt:** Yes, and I will tell you that it is still a work in progress for us. We are now over \$1 billion in revenue and growing. This growth means we have a unique opportunity to look at how our processes, and in this case – our people processes, need to adapt.

From a technical perspective, we are being much more thoughtful about what knowledge and skills are needed – whether they're in our operations center – or sales facilities – or in our other enabling functions that must be present in order for them to perform these roles. And we're working with managers to develop interview protocols to assess those for capabilities. From a cultural perspective, this past year as we introduced the new name of **tw telecom** to the marketplace, we also internally talked about our vision and values and the promise that we make to our customers. The values of integrity, teamwork, flexibility and service, are the cornerstones of how we have begun to shape our people related business processes. We have developed a set of competencies and behavioral expectations from these values that define how we can develop stronger teamwork, or more flexibility and agility to better deliver services important to building customer loyalty. We're still early in this process, but we are also integrating these behavioral competencies back into our recruitment efforts, our performance management processes.

**Greg Selker:** Can you talk about each one of those – how are you integrating this into your recruitment process?

**Steve Hardardt:** From a recruitment perspective – it is building behavioral based interview protocols, and spending time with our managers so that they are trained and practiced in how to get that information from candidates. And how to comparatively assess candidates, and determine how they would fit in with the other members of their team.

**Greg Selker:** How have you incorporated this values behavioral approach into your ongoing performance management?

**Steve Hardardt:** Our efforts here are very early on. The first step that we're taking is the development of a 360 tool that will be housed on-line. Employees and managers will begin to utilize this tool in the next few months as a means of getting feedback for themselves – for the purposes of improving both their behaviors as well as their performance.

**Greg Selker:** So the 360 has a kind of “values based” behavior element to it?

**Steve Hardardt:** Yes, exactly. We want to give the organization an opportunity to experience these competencies and what they mean and the implications they have - as I say, for good. And so from a development perspective to allow employees to utilize tools like a

360 for their own benefit, we think is the right place to start. We will, moving forward, look for the right opportunity to introduce it into our performance management process where that feedback will be incorporated with the assessment process, but we're still early in this journey around competencies that support our values. I want to be careful that we don't move too quickly so that we maximize the opportunity for adoption.

**Greg Selker:** One of the challenges that any organization has is walking the line between introducing processes that change how people think and deliver different results, and balancing that against the threshold of the status quo. How are you balancing this within **tw telecom**?

**Steve Hardardt:** That is a great question. How do we use this as an opportunity to help the organization embrace change? We spend quite a bit of time with a change management methodology that we use in concert with, or to integrate with process management and project management. And all three of these things have to be managed well in order to build awareness, adoption and ultimately, engaging a group of employees to not only accept change, but to embrace it. The model doesn't need to be so complex. It's simple, really. It comes down to three things – folks will change when they understand what you are trying to get them to do differently, when they understand what the outcome or desired end result is and when they understand how it will affect them – be it positive or negative. If you can effectively answer those three questions, you're well on your way to building the awareness and willingness to support change and enable change to happen.

**Greg Selker:** So in the case of the values component being introduced into the recruitment process, the result that you're going for is to have people realize that by integrating and practicing this, they will be making better hiring decisions?

**Steve Hardardt:** That's exactly correct and we are applying the same principles in our leadership development efforts. We are spending time with our leaders to explain what behaviors need to change and the resulting outcomes we hope to achieve. In this case, we want to produce better hiring decisions, quicker ramp-up to productivity, and better retention. This will enable continued strong business results. So the integration of this behavioral model into leadership development starts with helping our employees understand how ultimately achieving these goals affects them. We've talked with our leaders about the fact that the better job that they do in hiring, developing, managing and rewarding their folks, the easier their job becomes because don't have to manage the downside of not doing those things well.

**Greg Selker:** I know it's early in the process as you said in integrating the values behavioral component into performance management, but what is the incentive that you are laying out for your leaders to

take performance management from a values and behavioral perspective seriously?

**Steve Hardardt:** A year ago, we laid out in our performance management process a series of people leadership expectations, and each organization leader's goal was to do just what I mentioned – to assess, manage, develop, engage, reward and communicate effectively to their employees. As we completed the 2008 performance management process, each leader was assessed on how effectively they did those activities and to what end. This assessment was a key element in the decision making around merit based salary decisions and incentive awards...

**Greg Selker:** So they had a very direct tie-in to their compensation?

**Steve Hardardt:** Yes, although admittedly, we are early in this change process. It is our first year in this cycle of introducing a behavioral/values element into compensation. Over time our performance management practices in this area will get even stronger.

**Steve Hardardt:** This whole behavioral component is very important to us. We are a business that provides both high quality products as well as services. We have found from listening to our customers that their experience of the service we provide is what drives customer loyalty, customer retention and new customer attraction.

**Greg Selker:** Right.

**Steve Hardardt:** And what clearly shapes our customer's experience is how our employees interact with them– whether it's during the sales process during provisioning, or service processes after the sale. All of these things are important. So the behaviors our employees demonstrate reflect their attitudes and the environment that is created – and these are a direct link to the behaviors of our leaders. So our approach is to build the culture we want by, assessing, developing and building the knowledge and skills of each employee in the company to help create a desired customer experience. And for our leaders, we focus our efforts at building their capabilities to enable their employees to be successful.

**Greg Selker:** Well, that's a perfect segue into talking about succession planning. As these behavioral models are introduced and grown within **tw telecom**, how are they affecting succession planning?

**Steve Hardardt:** This is an area that we have just begun to work on in 2008. I was talking with someone the other day and I said, "It's a bit like an exercise program. You have to start out slowly – or reasonably - to make sure that your body can handle it and you can build over time." I would describe our succession planning process as functional. It is based on a fairly straight forward assessment process with an element of identifying developmental experiences,

be it on the job or in the classroom, for folks that we feel have potential for playing broader roles in our future. And then we have some small but thoughtful link to our recognition and rewards process to ensure that we do the right things to retain talented folks. But just as we have taken our first steps at integrating a behavioral/values step into performance management, we are still quite early in the process of integrating this approach into succession planning.

**Greg Selker:**

What are some of the best ways that you've discovered to incent and create a culture that rewards success as part of your overall effort at bringing flexibility and adaptability into the company?

**Steve Hardardt:**

Well this answer may surprise you. You know a differentiator for **tw telecom** in the telecommunications space is that the company really is quite prudent around risk taking. In fact, I might go as far to say that we're conservative. I understand that in today's economy many folks think that encouraging more risk may in fact accelerate success or the opportunity for greater success and rewards. We see that strategic decision making is the most important element for success. Our culture and our leadership have been quite thoughtful about investments and we use an approach that we call "success based investment." This would include any of the following investments: to install fiber in a particular market, or for a particular customer opportunity, to invest capital in systems enhancements – to invest money for a process redesign – or to invest money in attracting and developing people. We think about our expected outcome and our return on investment, and for us to move forward, we really need to see the probability of real return. We implement strategic decision making -- being two or three moves ahead of the competition, as being critical to long term success in all areas of our business. .

**Greg Selker**

Do you have a very rigorous process – a business review, or potential business review process that you go through in each of those instances?

**Steve Hardardt:**

Yes. Perhaps not identical in all areas, but similar. Certainly around our marketplace opportunities it's very measured.

**Greg Selker:**

Just given the level of investment, the decisions that you're making around moving into whether it's geographic areas or new business areas. Given the significance of the level of investment – that has to be extraordinarily well thought through in order to move forward.

**Steve Hardardt:**

Yes. And it's that conservative approach – that strategic, thoughtful approach that I think has served the company very well throughout its history. If we think back not too many years ago when the technology industry was really struggling, **tw telecom was** one of the very few smaller players in the telecom space that

survived and came out in its same form, probably stronger as a result. I think this can be directly attributed to our conservative, strategic approach to investment and risk taking. This approach continues to serve us well – even when we're enjoying some of our best performance in the company's history. It is still a model of prudent investment that has helped us be successful. So while we do encourage creative thinking and approve risk taking within our culture, it's with a good dose of measure.

- Greg Selker:** As adaptability and flexibility become more important as cultural attributes – this must be an interesting challenge to foster creativity, adaptability, flexibility – while at the same time being true to the core principle of being thoughtful and careful and to a certain degree, conservative?
- Steve Hardardt:** Yes and this is exactly the balance that we need to manage.
- Greg Selker:** What an interesting tension point in looking at deepening the culture of an organization.
- Steve Hardardt:** Indeed.
- Greg Selker:** Sounds like fun, actually.
- Steve Hardardt:** You know, it is. The good news is that we are so well positioned with strong customer relationships and our financial and operational successes that we have the ability to be thoughtful about where we want to continue to make investments to stay on this track.
- Greg Selker:** Let's move into a discussion about Human Resources for a second. As you look at the different qualities that a HR officer really needs to have in order to be viewed and perceived as a good, tactical practitioner who has sound command of programs and processes. What do you see are some of the differences that can elevate that same HR officer to someone who is perceived by the business as a strategic value added business partner?
- Steve Hardardt:** You know for me it starts with being business minded. You just have to invest the time to understand what makes the business profitable. You know, how does the business work – what are those key levers that will improve the company's ability to win in the marketplace? Tied closely to that is the importance of making time to think strategically – and at the risk of sounding cliché – there really are two components to that. One is to be a full partner and participant in the strategic business planning process. The second is to engage that same leadership team in the process to develop a people strategy that will enable achievement of the business strategy.

**Greg Selker:** So help business leaders see that focusing on people enables the delivery of their strategic business plan?

**Steve Hardardt:** Precisely. Beyond that, there are some common traits that I think a great or effective HR leader, as well as an effective leader of most other functions, needs to have. One is you have to get results. Once you build a plan that's agreed upon, it's essential that you have the ability to achieve your desired results through others. Next you have to understand what capabilities you need to have on your HR team. You have to actively develop your organization keeping these capabilities in mind. You've got to work with each team member to enhance their capabilities to match these needs. And while this may seem obvious, you have to assume the role of a trusted advisor to many people in the organization – whether it's the CEO or the executive team or first line managers or individual contributors. If you take the time to learn the organization and get to know the people, you'll develop the trust and the confidence of others that allows you to offer some hopefully sage advice and to bear influence. This is essential for somebody to become a true business partner as an HR leader in any organization.

**Greg Selker:** For HR executives coming up through the ranks – perhaps more junior HR leaders at this point, what advice would you give to have them think more strategically along the lines that you have laid out? For its one thing to say it – but it's a significant jump to move from tactical practitioner to strategic thoughtful, value added partner.

**Steve Hardardt:** So there are a number of things that I would offer to folks as advice that helped me during my career and the first one is – whenever you have the opportunity to partner with or support an effective business leader, jump at the chance. Play whatever role you can to support them. If they have good business acumen and they understand and value people, you will learn a tremendous amount. By providing great service to that business leader you can create a mutually beneficial relationship. So get as close to your business partners as you can. It will broaden your perspective. The second thing is to experience as many roles or opportunities as you can. It doesn't matter if it's on a project basis or through a variety of organizational roles. You have to put yourself in a position where you can really understand the breadth of all of the people related processes that are under the HR umbrella, talent management, total rewards, and organizational effectiveness. I have found that the broader your set of experiences, the better strategic business partner you are to your organization.

**Greg Selker:** Got it. Well I think the last area to talk about is looking at executive compensation – and particularly with the passage in Congress of

the stimulus plan and the restrictions placed on executive compensation for firms who have taken TARP funds. What are your thoughts on those proposed changes to curb executive compensation on Wall Street, and assuming those changes are implemented – how do you think they might impact executive compensation more broadly across the marketplace and specifically within your sector?

**Steve Hardardt:**

Companies who have received TARP funds in the Congressional stimulus packages should be held accountable to Congress who gave them those funds. For publicly traded companies, like **tw telecom**, there is accountability to a board of directors. Regarding executive compensation, I think you need to implement a strategy that's based on at least three philosophical pillars.

The first pillar is that you have to have a competitive compensation plan in order for a company to be able to attract and retain the executive talent needed to run their business, both today and in the future. The second pillar is that compensation, in whatever form it comes, really needs to be performance based. This has the dual components of rewarding individuals based on their contributions to an organization, and for compensating people based on the organization's performance in absolute terms as well as relative to its peers. The third pillar is that executive comp clearly needs to be aligned with shareholder interest, provided that you have a plan designed so that executives have the opportunity to share in the success of the business as do shareholders. I think these three philosophical pillars help construct fair compensation plans that help everybody achieve their needs.

**Greg Selker:**

When we look at the performance based element of compensation in the changes mandated in the stimulus plan, it would push all bonus compensation into restricted stock and limit an executive's ability to partake in the gains of that stock until 100% of the borrowed funds are paid back.

**Steve Hardardt:**

It's difficult to forecast what effect this provision would have on company performance as well as individual retention. But the point I would make, that we embrace, is the importance of having an independent board and an independent comp committee as part of that board who have the ability to establish and design the compensation plan. This has to happen with a competent compensation consulting partner. And that same comp committee and board need to be able to act independently in making decisions that are in the best interest of the shareholders and the company.

**Greg Selker:**

Very true. I would only add an adjective there that it needs to be a strong, independent board and compensation committee.

**Steve Hardardt:** Agreed – absolutely agreed.

**Greg Selker:** Well Steve, this has been a great conversation and I appreciate you taking the time, so thank you very much.

**Steve Hardardt:** You are absolutely welcome. And again, I appreciate the opportunity as well.