Research Highlight

# HR's Impact on Performance: Unlocking the Black Box

Can HR practices increase an organization's earnings and boost its productivity? In a major new study, four Cornell researchers have explored the impact of HR programs and practices on organizational profitability and efficiency.

Although the profession of HR has developed around the assumption that HR practices directly impact organizational performance, little empirical research supports this link, according to Timothy Gardner, Lisa Moynihan, Hyeon Jeong Park and Patrick Wright. Says Gardner, ILR Doctoral student, "Previous research showed that HR matters with respect to firm performance, and better HR practices lead to better financial outcomes. We know it works, but we're not sure how."

In a major new study, the researchers explored the "black box" of HR practices and their impact on employee attitudes and organizational outcomes like absenteeism and turnover. Surveying more than 3,400 employees at one of the largest food and food service distribution companies in the U.S., they pinpointed HR practices and employee attitudes and observed their effect on employee behavior and performance. Job satisfaction, organizational commitment, absenteeism, voluntary turnover and human resource management practices were just some of the variables measured, in addition to basic demographic information like occupational groups and union status. The authors also had access to satisfaction survey input from over 3,000 company customers.

The researchers found that companies providing employees with "empowerment" HR practices, such as grievance procedures, participation practices, and information on company goals and performance, have lower turnover rates. Their employees also have high job satisfaction and organization commitment scores. At the same time, neither skill, nor motivation-enhancing HR practices were related to collective job satisfaction or organizational commitment.

The study's most important finding: a change in one HR lever can cause a domino effect throughout an organizational system. For example, HR practices aimed at increasing workforce skill levels can cause turnover because highly trained employees become more mobile. Says Pat Wright, Professor of HR studies and Director of CAHRS, "Past research in HR looked only at specific practices, such as how much impact a compensation program has on firm profitability. We suggest it's important to manage the entire system of HR practices." To offset potential turnover and absenteeism, for example, HR can implement practices to increase employee commitment. Adds Gardner, "It means creating an engaging work environment where highly skilled employees want to stay."

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The Cornell researchers suggest their research offers several findings for human resources managers interested in deciphering their companies' "black boxes." The success of this study suggests additional lines of research, say the authors. Other employee attitude factors that mediate performance might include psychological states, corporate culture and management style. Additional performance measurements could include productivity and customer satisfaction.

For more information regarding this research please contact Professor Patrick Wright: via email: pmw6@cornell.edu or Tel: 607-255-5427.

This article references research from the CAHRS Working Paper #01-12, which can be found on the CAHRS website: http://www.ilr.cornell.edu/cahrs/WPapers.html.

Research Update

# Merck's Virtual HR: Leveraging Technology

In the last issue of hrSpectrum, we featured new research on "Virtual HR: Getting Out of the Middle" by Scott Snell of Cornell's ILR School, co-authored with Donna Stueber of Merck & Co., Inc. and David Lepak of the University of Maryland. The article, which featured Merck by way of example, caught the eye of Merck Senior Vice President of Human Resources, Wendy Yarno.

The article states that Merck's Virtual HR strategy includes decreasing HR staff 50 percent. "Not true," says Wendy. "Clearly, reducing costs over time is an expected outcome of Merck's many initiatives to web-enable HR processes and tools. But, it's not the driving force."

"Our intent is not to reduce staff but to leverage technology advances to get HR people out of the middle of transactions where we don't add value and free up our resources for more strategic work," she continues. "We're finding that the more strategic we become, the greater our perceived value to our business clients and our employees."

As a point of fact, Merck HR, with close to 600 domestic employees today, has grown since 1999 when Wendy assumed leadership of the HR function. During this time, the function has added positions in non-traditional HR roles such as analytical support and strategic operations management, while streamlining the number of positions that conduct administrative transactions for other people.

"Our vision for HR is to be a driving force in shaping the business by anticipating and driving the kind of change that is necessary for sustained competitive advantage," she adds. "Technology is just one piece of the puzzle."

Merck's HR Global Information Strategy (HR GIS) is

designed with this end in mind. "We have two primary goals," Wendy offers. "The first is to automate routine activities and deliver HR services direct to the consumer — our employees, managers, retirees, etc. — where it would save time, decrease costs or increase service levels. The second is to provide our leadership team with fingertip access to the HR data and information they need to make wise business decisions about their people and their organizations."

Merck is rolling out several workforce analytical tools to managers this year. The objective is to turn raw HR data into information that tells a story and is usable wherever it's needed, whenever it's needed.

In the past, largely due to systems limitations and the expense of early adoption, access to HR systems was limited to select staff members. Thanks to web technology and new software packages, Merck managers will be able to develop personal scorecards to measure their progress against the HR targets they set, and view their organization's data from every foreseeable angle, right from their desktop.

"Merck is a deeply analytical company in a highly regulated business environment," Wendy explains. "We exercise data-driven decision making for most of our critical business processes. It's time to bring this kind of rigor and analytical capability to the way we manage our Human Resources." In

To learn more about Merck Human Resources, contact Susan Ajalat via email: susan\_ajalat@merck.com or Tel: 908-423-6267. This article references research from CAHRS Working Paper #01-08. An updated version of this report will be available on our CAHRS website soon.

Executive Guest Lecturer

# Marcia Avedon - Honeywell, Inc.

Marcia Avedon, Vice President, Corporate Human Resources at Honeywell, Inc., visited Cornell as a CAHRS Executive Guest Lecture on March 5, 2002. HR students from the Industrial and Labor Relations School and MBA's from the Johnson School attended the event to hear about Honeywell's "Leadership Development Strategies." Avedon introduced Honeywell to the audience and explained their leadership development philosophy and practices. Students expressed much interest in how Honeywell creates stretch assignments with follow up support for high potentials. Avedon explained that this rigorous assignment method helps Honeywell create a culture supportive of leadership development and makes it "stick." Following her presentation, the Women's Forum at the Johnson School honored Marcia with a reception.



Marcia Avedon, Vice President, Corporate Human Resources, Honeywell, Inc.

Up Close With ....

### Randy Kiviat of The Hartford

As the population of America ages, a still-attractive stock market and a commitment to strong branding is positioning The Hartford Financial Services Group strongly for future success in insurance and investment products. But supplying a regular pipeline of human talent to sell and deliver products and services for one of America's largest insurance and financial services companies is an increasingly complex challenge for The Hartford's HR Team and Randy Kiviat, Group Senior Vice President of Human Resources.

With \$15 billion in annual revenues and \$185 billion in assets managed, The Hartford provides investment products, life insurance, group and employee benefits, automobile and homeowners products, business insurance, and reinsurance to millions of businesses, groups and individuals. It's also the largest seller of individual annuities in the U.S. "We continue to launch new products, and our current products are well positioned to capture greater market share," says Kiviat, who has managed the company's HR operations since 1999.

The Hartford serves customers through independent agents and brokers, financial institutions, affinity groups as well as the Internet. Approximately 11,000 independent agencies and more than 100,000 registered broker/dealers sell The Hartford's products. The company, which will celebrate its 200th anniversary in 2010, also has 27,000 employees.

The Hartford's two major lines of business - property/casualty and life - each has a freestanding HR operation that provides support to headquarters and field-based operations. These HR groups turn to corporate HR for support, counsel and service, and have a dotted line reporting relationship to Kiviat.

Kiviat works with a team of 120 professionals at the company's corporate headquarters in Hartford, Connecticut. Originally trained as a mathematician, he began his career handling group benefits and pensions, corporate benefits, health care and savings administration with several insurance, pension and consulting firms. After joining The Hartford in 1982 as assistant director of benefits, he broadened his responsibilities in the compensation, benefits and HR areas before being named to his current position three years ago.



The Hartford is well positioned for the future. In its life operations, the company's highly regarded investment products are poised to take advantage of baby boomers' needs to plan for retirement, college tuition, and estate planning. On the property/casualty side, the company has leveraged successful partnership alliances, such as its 18-year relationship providing personal insurance to members of AARP, and has become a leader in providing small business insurance. However, providing a steady supply of highly qualified people to develop and carry out these programs is critical to executing this strategy and

growing the business. Says Kiviat, "We're committed to improving our talent quotient going forward across the enterprise."

In addition to launching a talent review process to establish a talent mindset throughout the company, HR is reinforcing The Hartford's talent search through two key programs:

e-HR. "We're taking HR to the Web and automating routine transactions so employees can conduct a variety of routine - but important - HR functions on their own," says Kiviat. The Hartford's new systems will enable employees to change addresses, review pay stub information, even submit performance review data and participate in career development training online, at their own pace. Says Kiviat, "The e-HR system also allows HR professionals to focus on strategic issues instead of spending their time pushing paper."

Focus on development. "The Hartford's products are growing increasingly sophisticated, and we need exceptional talent to deliver exceptional results," says Kiviat. But even though the recession has eased the labor market, the supply of talent is still at a premium. He adds, "The city of Hartford is a great location to raise a family yet, we have the same problem as other employers here in attracting talent." Since the average tenure of a Hartford employee is about ten years, Kiviat says HR stresses training and development, to nurture skills and enhance the retention of employees.

"There's no doubt that superior people have been a key factor in our growth," says Kiviat. "Our strategy calls for us to be a predominant provider of investment and insurance products," he says. "For us, this means providing a steady supply of talent in the right place at the right time."

The Hartford joined CAHRS in 1999; the 'Up-Close With ...' profiles feature interviews with leaders of CAHRS sponsors.

#### Company HR Profile

### Waterford-Wedgwood

Waterford-Wedgwood designs, manufactures and distributes high-quality crystal, fine bone china, fine porcelain and fine earthenware products. With global sales of \$957 million per year, the closely-held Irish company consists of several major units: the Waterford-Crystal Group produces handcrafted crystal stemware, lamps, and giftware under the Waterford and Stuart brand's, the Wedgwood Group makes fine bone china, giftware and tableware. The company also owns German ceramics makers Rosenthal (85% stake, and has offered to buy the rest) and Hutschenreuther. In the U.S., its brands include premium cookware maker All-Clad, and Ashling, a linens company.

Established in 1986 with the merger of Waterford-Crystal and Wedgwood, the company sells its goods in more than 80 countries. Named the top quality brand by Harris interactive, Waterford-Wedgwood also has agreements with other luxury brands, with fashion designers such as Vera Wang, Versace, Bulgari, John Rocha, Jasper Conran and Paul Costelloe, and licenses its brands for non-crystal products such as linens and tea.

Organized primarily by geography, Waterford-Wedgwood's customer base is primarily American: overall, 50 percent of revenues are generated in the U.S., and 75 percent of all Waterford customers live in the U.S.. The company's U.S. HR group, headed by Brian Smith, Senior Vice President of Human Resources, is responsible for all U.S.-based businesses and their 1,200 employees located in the U.S., including Waterford-Wedgwood, Rosenthal, All-Clad and any acquisitions on the horizon. Don Hendrickson, Vice President of Administration and Bruce Morbit, Director of Staffing and Development, are also key players in directing the company's U.S. HR program.

In addition, "We have HR oversight on a strategic level for Waterford-Wedgwood Ireland," says Smith. For example, his staff was involved in the restructuring of Waterford-Wedgwood's U.K. and Irish businesses recently, and it oversees the annual global incentive design and equity program recommendations. Waterford-Wedgwood worldwide has more than 10,000 employees working in 12 countries.

As director of staffing and development, Bruce Morbit and his staff support all parts of the WaterfordWedgwood USA organization in centralized staffing for open positions, HR planning and recruitment. "We hire more than 100 people annually in sales and marketing a year," he says. "But the strength of the Waterford-Wedgwood brand is a strong selling tool. For us, the challenge is to find people who can work in a culture where there's passion for the brand," Morbit says. Waterford-Wedgwood has implemented an organizational competency system to help identify candidates who have the capabilities to succeed.

With a strategy of profitable growth, Waterford-Wedgwood doubled revenues and tripled profits from 1996-99, and intends to do the same over the next five years. Led by Sir Anthony O'Reilly — the former CEO of Heinz Corporation — the company plans to expand further into china, giftware, linens, pens and other acquisitions. For HR the message is clear. "We need to prepare HR to grow and prepare the company to move new organizations in," says Smith.

An initial step is to define organizational competencies and what it takes to succeed at Waterford-Wedgwood. "One of the first HR processes we baked in was continuous performance improvement where managers and employees conduct self-assessments together," says Smith. "We've finished our second cycle, and are now creating a hiring guide against those competencies. The way we see it, all these processes are linked."

Other long-term HR goals include helping the organization extend its global reach. "We hope to migrate from a business unit mentality to a truly global operation by deploying talent globally and sharing lessons learned across businesses," says Smith. Training and developing management bench strength for strong succession planning will also be fundamental, he adds.

At the same time, it's important to fight today's fires: escalation in medical costs, the recession and advances in technology impact how HR is delivered every day. Smith's team recognizes that planning and executing basic HR programs and services is the heart of their mission. In a show of employee solidarity orchestrated by HR during last year's recession, every employee from entry level to CEO, took a 5 percent reduction in salary.

Waterford-Wedgwood joined CAHRS in 2000; the 'Company Profile' articles feature a corporate HR view of new CAHRS sponsors.

#### Home Depot

### **Executive Briefing**

While hosting the CAHRS **Executive Briefing at The Home** Depot Store Support Center in Atlanta, Georgia, Dennis Donovan celebrated his first year anniversary as Executive Vice President of Human Resources for the company. Associates lead the "Home Depot Cheer" energizing the audience for the day-long event addressing "Building a Winning Future on a Foundation of Change." CEO, Bob Nardelli, accepted Donovan's invitation to welcome CAHRS sponsors. The two worked as a team using high-tech slides to showcase the company's



The Home Depot cheer!

business and reasons for change. Nardelli spoke of the importance of HR to company performance in upholding the tradition of providing the best service possible to all customers. Following their presentation Nardelli and Donovan enthusiastically answered questions posed by the visiting HR executives and Cornell HR faculty members.

Donovan gathered The Home Depot CFO, Presidents, numerous VP's, Managers, and Associates, to explain the changes made in HR the past year. The audience was divided into smaller groups rotating to hear the leaders presentations about: (1) Establishing HR Processes, Metrics and Reporting; (2) Driving E-Learning and Learning Institutes; (3) Transforming Performance Management and Success Sharing; (4) Redesigning the Merchandising Organization; (5) ADS/HRM Restructuring; (6) Business Leadership Program; and (7) Launching the Store Leadership Program.

In one day CAHRS sponsors and Cornell HR faculty witnessed the speed of change and the open, inspiring, culture at The Home Depot. The well-organized,



Our hosts, Dennis Donovan, Executive Vice President, HR and Bob Nardelli, Chairman, CEO and President

educational event helped us understand how Home Depot reached more than one billion customer transactions this year and for the ninth year reached Fortune magazine's "Most Admired" list.

### In The News



Patrick Wright

Professor Patrick Wright Quoted in IOMA's HR Management Report – The Institute of Management and Administration (IOMA)'s recent Human Resource Department Management Report, entitled "The New HR Challenge: How to Balance Cost Cutting With Recruitment and Higher Security," included research by CAHRS Director Patrick Wright. His comments were included in this recent report published on March 1, 2002. The report discusses the upcoming HR issues for 2002 as "paradoxical" issues which combine the search for talent, capital, and security while simultaneously downsizing and recruiting new talent and resources. "HR itself will feel the pinch of tightening corporate purse strings, yet at the same time the HR function will be

more valuable than ever to employers." Professor Wright's contribution to the management report was chosen for his views on the value of HR leadership, "For the past five years, the challenge for companies has been to build up their 'brand' and become employers of choice in the recruiting wars...now...with employers shedding staff and reducing functions...what do those decisions do to that brand they've been trying to build" to influence employee candidates? For the complete IOMA HR Management Report visit the web site: http://www.ioma.com/.

#### SPONSOR SPOTLIGHT

British American Tobacco Australasia named as "Best Employer" 2001 – CAHRS Sponsor David Burrell, Area HR Director for British American Tobacco company (BAT) in Australia, was proud to tell us they had been ranked 6th in their country for employers who have over Товассо 1,000 staff. The study measured the effectiveness of companies at engaging their staff in the AUSTRALIA business, and in creating a motivated workforce. "Quality leadership," "more learning and development provisions," and "employee recognition" are seen as the trademarks of Best Employers in Australia. "The great thing about the result is that the employees' vote comprises a large proportion of the outcome," says David, "and for a newly merged company (BAT and Rothmans merged globally in September 1999) this is a real vote of confidence in the direction the company is taking, and the people related strategies we are implementing." The evidence gained from the study confirmed the view; Best Employers outperform other companies on many performance indicators, including financial results. This research is the first significant Australian attempt to define how companies become recognized as best companies to work for. The study was conducted by Hewitt Associates, a global management consulting and outsourcing firm, in conjunction with the Australian Graduate School of Management. For more information on BAT, visit www.bata.com.au; for more information on Best Employers in Australia visit www.hewitt.com.

CAHRS Sponsors' Walker and MacDonald publish HR Research – the Winter 2001 issue of the Journal of Human Resource Management included research entitled "Designing and Implementing an HR Scorecard" written by Garrett Walker, Director of Learning Performance and Funding, and J. Randall MacDonald, Senior Vice

President of Human Resources and Chairman of the CAHRS Advisory Board, both of IBM.

Their research, written while working for their previous employer GTE, focuses on how to effectively manage the value created by thorough investments in employees by designing and implementing an HR scorecard specific to your company's infrastructure. "We in management need to track our financial results while monitoring progress in developing our human capital and acquiring the talent and capabilities we will need for business success. The Balanced Scorecard (Kaplan & Norton, 1996) provides a system that leverages the traditional financial and efficiency measures ...with metrics of performance...". For the complete article please visit the Journal of HR Management web site: http://www.interscience.wiley.com/jpages/0090-4848/.







### INTERNATIONAL SPRING SPONSOR MEETING

3-5 June 2002

### Managing Human Capital in the European Union and Beyond

### **Meeting Agenda**

#### MONDAY, 3 June 2002, Afternoon

#### Welcome and Introduction

 Dr. John Boudreau, Director, and Dr. Pamela Stepp, Managing Director, CAHRS, Cornell University, Ithaca, NY

### 9/11 and Beyond: What We Can Learn from the EU and German Experience

• Daniel Coats, U.S. Ambassador to Germany, The U.S. Diplomatic Mission to Germany

#### Reconciling HR Culture Dilemmas in Europe

• **Dr. Charles Hampden-Turner**, Senior Consultant, THT Consulting, Amsterdam, The Netherlands

## A Balanced Scorecard Approach to the Management of Global Diversity

- **Dr. Quinetta Roberson**, Associate Professor of Human Resource Studies
- **Dr. Pamela Stepp**, Managing Director, CAHRS, ILR School, Cornell University, Ithaca, NY

## The European Union: The Challenge of Global Migration Issues

 Mr. Richard Lewis, Acting Deputy Head of Asylum and Immigration, European Commission, Brussels, Belgium

#### East / West Berlin Issues

Mayor of Berlin, Germany

#### Cornell/ILR School Evening Reception and Dinner

 Hosted by Dr. Ronald Seeber, Associate Dean, School of Industrial and Labor Relations at Cornell University, Ithaca, NY

#### TUESDAY, 4 June 2002

### Emerging Trends in Europe with Respect to European Works Councils

- Mr. Govert Boeles, Manager, Global Staff Relations, Shell International BV, The Hague, The Netherlands
- **Dr. David Lipsky**, Professor and Director, Cornell/PERC - Institute on Conflict Resolution, Ithaca, NY

#### The Role of Corporate Universities in Global Mergers

 Mr. Shlomo Ben-Hur, Chief Learning Officer, DaimlerChrysler Services Academy, DaimlerChrysler Services, Berlin, Germany

### Expatriation and Repatriation in German MNC's: Practices and Challenges

• Dr. Torsten Kühlmann, Professor, University of Bayreuth, Bayreuth, Germany

### Reinventing Human Resources at IBM Through Global Shared Services

• Mr. Federico Castellanos, Vice President of Human Resources, IBM Europe Middle East Africa, Paris, France

#### Rethinking Global Remuneration

- Mr. John Hofmeister, Director of Human Resources, Royal Dutch/Shell Group of Companies, London, UK
- Mr. Tony Marchak, Vice President of Global Workforce Effectiveness, IBM Europe, Paris, France
- Ms. Barrie Morgan, Manager of Executive Compensation Europe, General Motors, Zurich, Switzerland
- **Dr. Nada Zupan,** Professor, University of Ljubljana, Ljubljana, Slovenia

**Evening Reception hosted by Sony** 

#### WEDNESDAY, 5 June 2002, Morning

#### **Guided Learning Journeys**

For more information about this meeting contact Ms. Michelle Eastman at 1-607-255-2790 tel., email mre2@cornell.edu, or visit our webpage at http://www.ilr.cornell.edu/cahrs/Spring2002.html

#### CAHRS EVENTS CALENDAR

#### 2002/2003

Executive Guest Lecture
Executive Briefing Profiling The Home Depot
Spring International Sponsor Meeting 2002 June 3-5, 2002 Berlin, Germany
CAHRS Sponsor Executive Roundtables
Fall Sponsor Meeting 2002 November 13-15, 2002 Ithaca, NY
Spring Sponsor Meeting 2003
Fall Sponsor Meeting 2003 November 12-14, 2003 Ithaca, NY
Other ILR Events
Managing Strategy, People, and Human
Delivering Competitive Advantage
Cornell Annual Career Fair
Creating Competitive Advantage October 6-11, 2002 Ithaca, NY Through People
ILR Career Fair October 17, 2002 Ithaca, NY

For more information, contact Jo Poole at 607/255-9358 or email: jap7@cornell.edu, or visit our website at: http://www.ilr.cornell.edu/cahrs/Calendar.html







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Phone: 607-255-9358 • Fax: 607-255-4953

Dr. Patrick Wright, Director • Dr. Pamela Stepp, Managing Director