September - October 2003

hrSPECTRUM

CAHRS Center for Advanced Human Resource Studies

*Research Highlight*

# Performance Based Pay: Does the Benefit Outweigh the Cost?

Winning the talent war, attracting and retaining key talent — is increasingly pivotal to organization success. Yet many executives believe their organizations do a poor job of it. The War for Talent, a recent report based on interviews with over 5,000 executives and managers, found that 65% of respondents believed that they had insufficient talent within the ranks of their leadership. Only 10% strongly believed that their companies retained most of their high performers.

According to new research by Michael C. Sturman and John W. Boudreau of Cornell University and Charlie O. Trevor and Barry Gerhart of the University of Wisconsin-Madison, low and high performers are more likely to leave an organization than average performers are. Most companies efficiently shed poor employees, but they fail to retain their star employees. That's because today's star performers are likely to leave if they're not rewarded for superior performance.

Even with the recent economic slowdown, organizations face increased pressures to attract and retain top talent in pivotal talent areas. And the problem will only get worse. The Bureau of Labor Statistics projects that, by 2010, the labor supply will grow by 17 million while labor demand will increase by 22.2 million, indicating that labor shortages will present even greater challenges in the future.

Recognizing the benefits of retaining top workers, companies in the U.S. and abroad have launched pay for performance programs that reward team, business unit, and corporate performance. Yet even though the potential retention benefits of incentive pay have been lauded, they have yet to be quantified in dollar terms. In fact, few companies have even pinpointed the actual cost of performance-based bay.

The Cornell and Wisconsin researchers propose a "utility" model that captures the value associated with employee turnover and hires over time. The model estimates three components in each time period: movement costs (costs associated with employee turnover and hires); service costs (pay, benefits, and associated expenses required to support the work force); and service value (value of the goods and services produced by the work force). The dollar-valued implications of a given pay plan, and of the subsequent turnover and hire patterns over time, are estimated by subtracting the pay plan's costs from its benefits.

Based on more than 5,100 employees hired by a large petrochemical company between 1983 and 1988, the model employs a step-by-step process that combines organization-specific information about pay, performance and pay-turnover linkage, and estimates the effects of incentive pay on turnover patterns for various levels of employee performance over time. The model also analyzes the financial consequences of incentive pay as an employee retention vehicle.

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The researchers' analysis suggests that accounting or traditional HR cost-based assessments alone would reject pay-for-performance compensation systems, but a full analysis of the dollar benefits shows that would be a mistake. The incentive system has a high probability of providing quality enhancements that fully offset the costs. This illustrates the importance of considering both the costs and benefits associated with pay-for-performance plans. Their model should enable HR professionals to estimate the retention patterns and subsequent financial consequences of their existing and potential company-specific, performance-based pay policies.

*For more information regarding this research please contact Michael Sturman via email: mcs5@cornell.edu, or Tel: (607)255-5383. This article references research from the CAHRS Working Paper #03-12, which can be found on our web site: http://www.ilr.cornell.edu/cahrs/WPapers.html .*

*HR Company Profile*

# Starbucks Corporation

## *HR Fuels Starbucks' Worldwide Growth*

If it weren't for HR, Starbucks Corporation (Nasdaq:SBUX) wouldn't be a Fortune 500 company reporting revenues of $4.1 billion, and growing dramatically in North America and elsewhere in the world. "We're opening three to four stores a day," says Dave Pace, Starbucks' Executive Vice President, Partner Resources. "With more than 7,200 stores worldwide, we're also hiring more than 175 new people per day."

*David Pace*

In just 12 years, Starbucks has established one of the most recognized and respected global brands in the world. There are few people in the world who don't know that Starbucks purchases and roasts high-quality, whole bean coffees and sells them along with fresh, rich-brewed, Italian style espresso beverages and a variety of pastries and confections.

In North America, most of the company's retail stores are company-operated. Starbucks licenses select stores in captive markets like hospitals, airports, bookstores and some hotels. Internationally, almost all stores are licensed except those in the UK, Thailand, Japan and Australia. Starbucks also:

- sells whole bean coffees through a specialty sales group and supermarkets
- produces and sells bottled Frappuccino® coffee drink and premium ice creams through joint venture partnerships
- offers a line of innovative premium teas produced by its wholly-owned subsidiary, Tazo Tea Company.

Starbucks' operations are organized by geography, with two major divisions: North America and international. The company also has a strong supply chain organization that handles procurement, manufacturing, roasting and distribution of supplies, equipment and materials. Finally, the company's corporate staff includes standard groups like finance, IT, marketing/communications and human resources. "We're known as partner resources because Starbucks employees are referred to as partners," explains Pace. "This goes back to Starbucks decision in 1991 to offer a broad-based stock options program to all employees, making them partners in the success of the business. Our operators currently do a great job of finding the right people for our stores." "Our challenge is to try to help them be able to find even more of them. We never want the HR function to be totally responsible for staffing, we want to keep working to help our teams find better ways to 'fish'." says Pace.

Organized in a traditional line/staff HR matrix, Pace's HR group includes three HR generalists who have dual reporting relationships with him and managers of the company's North America, International and Supply Chain units. The HR team also includes experts in staffing, organizational development, HR technology, total pay and global diversity.

"With the business growing so rapidly, HR is challenged to finding high quality partners quickly enough to staff and maintain new operations around the world," says Pace. "Another major HR challenge is maintaining our culture. Starbucks has created a family-style culture where partners know and support each other. We currently operate several programs that underscore this culture, such as providing medical benefits for everyone, including part-timers who work 20 hours per week. Starbucks also supports partners' community commitments by donating $10 to their organizations for every hour they volunteer. Although our goal is to 'stay small as we get big' how long we can maintain these programs as we are growing is a difficult question."

Career planning is another focus area for Starbucks' HR group. "We're building a system to enable partners to identify career opportunities within the company, self-educate and pinpoint potential career options. Our goal is to provide Starbucks with a pipeline of internal talent." For example, the company's general manager in Greece, a Starbucks partner in Chicago and a Greek national, volunteered to lead the start-up team in Greece when he learned that the company was planning to open a store in Athens. Similarly, a partner who was an American-based Chilean national volunteered to startup a new Starbucks business in Santiago recently. hr

*Starbucks Corporation joined CAHRS in 2003; the 'Company Profile' series feature a corporate HR view of new CAHRS sponsors.*

# In The News

**Brazil's President is Hosted by Lehman and Lawler at ILR New York Event** – ILR Dean Ed Lawler welcomed President of Brazil, Lula da Silva to the Cornell Club September 24th. Brazil's President, Luiz Incio Lula da Silva, who was in the U.S. to address the General Assembly of the United Nations, also was the guest of honor at a special reception at the Cornell Club in New York City co-sponsored by the School of Industrial and Labor Relations, the AFL-CIO, and the New York Central Labor Council. Cornell President Jeffrey Lehman greeted Brazil's president, who is known as Lula in his native country and is a former labor leader. ILR Dean Edward Lawler also welcomed Lula, and Richard Trumka, secretary-treasurer of the AFL-CIO, introduced him to the crowd of 75, which included prominent New York labor leaders and faculty, staff and students at the New York City extension offices of the ILR School. President Lula is a former metal worker who became a strong labor leader in Brazil, was elected President of the Metalworkers Union in 1975, and founded the Brazilian Workers Party. He was elected President of Brazil last December primarily because of strong labor support and has close strong ties to the AFL-CIO. Richard Trumka, Brian McLaughlin, President of the NYC Central Labor Council, and Jeffrey Lehman, gave presentations and remarks. Stanley Gacek, International Affairs Department, AFL-CIO and Sean Sweeney, ILR Director of Labor Studies Programs for the Metro region, did a wonderful job organizing and coordinating the event.

*Jakub Sovina*

*Christopher Collins*

**Jakub Sovina and Christopher Collins Nominated for Academy of Management Best Paper** – Titled, "*The Effects of Organizational Brand Equity on Employment Brand Equity and Recruitment Outcomes*," this paper attempts to provide an answer to one of the questions that has not been fully addressed in recruitment literature. The question of what factors affect applicant perceptions about employers in the early stage of recruitment, to date has not been answered. In order to achieve this goal, the paper combines theory and research findings from the areas of employment image and psychological contract with marketing theories of brand equity and brand extensions. Overall, the results of this study suggested that organizational brand-building activities and organizational brand equity are significant predictors of job seekers perceived employment brand equity and intentions to apply. Published in the 2003 Academy of Management Proceedings.

*Susanne Bruyère*

**Program on Employment and Disability Awarded Center Grant** – The ILR School's Program on Employment and Disability (PED) has won a five year 3.75 million dollar grant from the U.S. Department of Education National Institute for Disability and Rehabilitation Research. The ILR School is collaborating with the Department of Policy Analysis and Management (PAM) in the College of Human Ecology and the Cornell Center for Policy Research (CCPR) in Washington, D.C., for this effort. Andrew Houtenville and Susanne Bruyère (ILR), Richard Burkhauser (PAM), and David Stapleton (CCPR) are the Governing Board Members and Co-Principal Investigators for this Project; and Andrew Houtenville will serve as Project Director.

*Ileen DeVault*

**Institute for Women and Work Receives a $25,000 Grant** – Ileen DeVault, Associate Professor, Collective Bargaining, Labor Law, and Labor History and Francine Moccio, Director, Institute for Women and Work recently received a $25,000 grant from the Pierce Memorial Fund, awarded by ILR, to hold an international conference at the Cornell Club in New York City. The conference entitled, "*Women and Unions: Still the Most Difficult Revolution?*" will be held to honor the anniversary of Alice Hanson Cook's 100th birthday and will take place November 14-15, 2003. The Pierce Memorial Fund is an endowment given to the ILR School in the early 1960s to provide funding for an annual conference on an important topic that would result in a high quality academic publication. The conference will expand on some of the most significant themes of Cook's book, entitled, *The Most Difficult Revolution: Women and Trade Unions* (with Val R. Lorwin and Arlene Kaplan Daniels, 1992). The book examined how working women's experiences in Western European countries could influence and inform the progress of union women in the United States. This conference will bring together over 50 men and women who are influential scholars, union activists, and policymakers from a wide range of countries, from advanced post-industrial to developing countries, reflecting today's globalization of both corporate structures and the correspondingly necessary union structures.

*From Randy MacDonald, SVP HR IBM & CAHRS Advisory Board Chair*

# Message to CAHRS Sponsors

On behalf of the CAHRS Advisory Board, I welcome Patrick Wright as the new Director of CAHRS. Pat is technically outstanding with a practical orientation towards business. The CAHRS Best Practices studies on HR Strategy, Leadership Development, and E-HR and the New HR Paradigm research initiated and led by Pat are indicative of his creative and breakthrough thinking. Pat's quality research in strategic human resource management, how firms create competitive advantage through people, and HR's role in creating competitive advantage have had an impact in the field at the CAHRS meetings, in the classroom at Cornell, in executive education, and in his scholarly publications. There are few HR thought leaders this early in their careers that surpass Pat's 42-refereed publications in top journals, 10 published books, and 22 book chapters.

His scholarly expertise has placed him as an Editorial Board Member for Personnel Psychology, Journal of Applied Psychology, Journal of Management, Human Resource Management Journal, and Human Resource Management Review. Board of Directors membership includes WorldatWork, Society for Human Resource Management Foundation, and Human Resource Planning Society. Pat serves as the Chair of the Human Resources Division of the Academy of Management and he has consulted or conducted executive education programs for such firms as IBM, ServiceMaster, Nabisco International, Allstate Insurance, Hewlett-Packard, McGraw-Hill, Continental Airlines, Phillips Petroleum, Cigna and TRW.

As you get to know Pat you will learn that he is dedicated to the HR profession and a team player that brings Cornell faculty, staff and students together with CAHRS Sponsors. It has been a pleasure working with Pat in the past and I look forward to this new relationship.

*Randy MacDonald*

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*Patrick Wright*

Following in John Boudreau's footsteps is not an easy task. His excellent leadership of CAHRS has positioned it as a (if not the) premier center of its kind in the world. I both appreciate and admire his tireless efforts on behalf of this institution, and view this as an exciting challenge.

The excitement of this opportunity stems from the fact that CAHRS possesses an outstanding staff, faculty, and sponsor group. The skill and commitment of the CAHRS staff never ceases to amaze me. Our current faculty blends the wisdom and experience of people like Lee Dyer with the energy and enthusiasm of our younger faculty such as Quinetta Roberson, Chris Collins, Brad Bell, and Lisa Nishii. Finally, the sponsor companies continue to display a commitment to CAHRS that no other center can match.

The next few years will present a series of challenges as we try to build upon the great foundation that my predecessors have laid. I look forward to working with all of you as we rise to meet these challenges, and renew the CAHRS vision.

*Sponsor Opportunity*

# Student Symposium to follow CAHRS Fall Meeting

The Strategic Human Resources, Leadership and Organizational Effectiveness group (SHRLOE), consisting of graduate students from the Johnson School of Management and the School of Industrial and Labor Relations, will host its first annual symposium *"Leveraging Human Capital for Business Success"* on November 14, 2003.

This event immediately follows the CAHRS conference and provides an opportunity for business executives, leading academics and interested students to explore how to effectively create and maintain a competitive advantage and deliver business results through the people in the organization.

*Leveraging Human Capital for Business Success* presents a forum for conversation and debate focusing on the current and long-term challenges facing business leaders in the fields of human resources, leadership development and organizational effectiveness. The panelists and moderators are all well-regarded practitioners and academics.

Symposium Schedule:

- Keynote Address by David Russo, former VP of HR at the SAS Institute
- Panel Discussion: Implementing Metrics in Organizations
- Interactive Experiential Learning session
- Panel Discussion: The Role of Organizational Effectiveness in Organizations.
- Kick-off reception the evening of November 13th and breakfast and lunch on November 14th.

We welcome all corporate representatives as participants in the symposium.

Please contact Dan Gruber (dag58@cornell.edu) if you are interested in attending. The success of the symposium largely depends on the support of SHRLOE's Corporate Partners who provide speakers and financial support for the event. Please contact Renee Brown (rlb39@cornell.edu) if you are interested in supporting the symposium.

*To learn more about SHRLOE and the Symposium, visit www.rso.cornell.edu/shrloe.*

*Master of Professional Studies Program*

# Cornell University, ILR Extension in NYC

Lifelong learning has become something of a buzzword in the educational and business worlds. In the face of continuous technological, economic, and strategic changes, many adults are flocking back to the classroom to expand their horizons and deepen their understanding of the workplace.

ILR's new Master of Professional Studies (MPS) program, based in New York City, is geared to just that type of student: a heterogeneous mix of people involved with human resources, labor relations, or general management who want to bring a theoretical backdrop and cutting-edge ideas to their daily work. "The company suggested I get a broader scope," says Stacey Petrey, who worked as a compensation analyst for an investment-banking firm when she started the two-year program. After making a few calls, she adds, "I realized I wanted in-depth graduate studies rather than just a certificate."

Students in the MPS program participate in lectures and seminars in the fields of collective bargaining, labor economics, organizational behavior, human resource management, and public policy. Students must also complete a research project under the guidance of a faculty advisor. Classes meet on Saturdays at the ILR office and are held over four academic semesters (twelve sessions per semester). The MPS Program is housed at the Institute for Workplace Studies, the ILR School's New York City-based forum for academic research, policy discussions and educational programs. All classes are held in the ILR Metropolitan New York offices, located in mid-town Manhattan, and are taught by ILR professors who travel to the city weekly. Students also spend two weeks at the Ithaca campus during the summer.

*For more information, visit the MPS website at www.ilr.cornell.edu/mpsnyc or call (212)340-2808.*

# CAHRS EVENTS CALENDAR

CAHRS Fall Sponsor Meeting 2003 . . . . . November 12-13, 2003 Ithaca, NY
Global Sourcing and Domestic Competitiveness:
HR Issues and Responses

CAHRS Spring Sponsor Meeting 2004 . . . . . May 24-25, 2004 Lausanne, Switzerland
HR and Sustainability

## Other ILR Events

HR Strategy:. . . . . September 28 - October 3, 2003 Ithaca, NY
Creating Competitive Advantage through People

Global Labor and Human Resource Issues . . . . . October 9-10, 2003 New York, NY

Managing for Impact. . . . . November 3-4, 2003 Washington, DC
HR Metrics and Firm Performance

HR Leadership: The Next Paradigm . . . . . February 19-20, 2004 Boca Raton, FL

Managing for Impact . . . . . April 15-16, 2004 New York, NY
HR Metrics and Firm Performance

HR Execution: Delivering World Class HR Solutions . . . . . May 2-7, 2004 Ithaca, NY

HR Leadership: The Next Paradigm . . . . . May 26-27, 2004 Lausanne, Switzerland

Global Human Resource Executive . . . . . June 13-16, 2004 New York, NY
Development Program

HR Strategy:. . . . . September 26 - October 1, 2004 Ithaca, NY
Creating Competitive Advantage through People

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

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*hrSPECTRUM* is published by the
Center for Advanced Human Resource Studies,
School of Industrial and Labor Relations, Cornell University,
Ithaca, New York 14853-3901
Phone: 607-255-9358 • Fax: 607-255-4953
*Dr. Patrick Wright, Director • Dr. Pamela Stepp, Managing Director*

Cornell Chronicle October 9, 2003
Vol. 35, Number 9

# Historic Agreement Solidifies Ties Between CU's ILR and UN's World Labor Group

By Linda Myers

Challenges to fair labor practices in many corners of the world, from Ghana to Guatemala, is a subject that has engaged faculty and students at Cornell's School of Industrial and Labor Relations since the economy became more global.

A number of ILR faculty members and extension associates have been research consultants over the years on initiatives at the International Labor Organization (ILO) in Geneva, Switzerland, and several have participated in research projects at its International Institute for Labour Studies (IILS), also in Geneva. The ILO is a specialized United Nations agency that sets standards and shapes policy for basic workers' rights, stable employment and safe and healthy working conditions around the world. The IILS is its research arm.

Jean-Pierre Laviec, president of the International Institute for Labour Studies, left, listens as Ed Lawler, dean of the School of Industrial and Labor Relations, talks publicly about the new Memorandum of Understanding between the IILS and the ILR School, in the Doherty Lounge of Ives Hall on Sept. 23. The agreement will open doors overseas for student internships and faculty research in international labor studies.

*Frank DiMeo/University Photography*

On Sept. 23 in Ives Hall's Doherty Lounge, ILR Dean Edward Lawler and Jean-Pierre Laviec, director of the IILS, signed a historic memorandum of understanding formalizing the growing relationship between the ILR School and the IILS and paving the way for further faculty and student involvement with the institute and its parent organization in Geneva. Faculty, staff and students comprised the audience for the event, which was billed as a workshop and opportunity to learn more about the two international labor groups. Also in attendance was Mary Covington, acting director of the ILO's Washington office, who traveled to Ithaca to be present for the event.

"Our newly formalized relationship with the International Institute for Labour Studies promotes greater understanding of the forces that drive the emerging workplace and work-standards issues of the 21st century and to more social dialog on the most-pressing problems," said Lawler. "In addition, the agreement represents a huge step in the ILR School's ongoing efforts to extend its international presence and will amplify the opportunities open to our faculty and students, giving them important contacts in the 176 countries where the ILO operates."

"This is one very concrete step in a series of building connections with the ILO," said Professor Sarosh Kuruvilla, one of two visionaries at the ILR School who worked behind the scenes for the memorandum's development (the other was Stuart Basefsky, senior reference librarian at the ILR School's Catherwood Library). "It makes sense that the ILR School and the ILO should collaborate," said Kuruvilla. "They have the same constituencies -- labor, management and government -- and are the two largest institutions in their areas. For the ILR School, that's research and education, and for the ILO, it's policy."

Basefsky's links with the ILO and its research arm are related to an earlier agreement that established the Catherwood Library as one of only two ILO Depository Libraries in the United States, with ILO publications provided free to library users. Also, as director of the

Institute for Workplace Studies' News Bureau, which provides links to documentation behind the labor news, Basefsky was invited to Geneva last February and March to help the IILS reconstruct its own information and communication efforts. In addition, he had worked with Laviec before on the ILO Mirror Site for the Americas, in conjunction with Cornell's law library and its director, Claire Germaine, a professor of law.

One of the agreement's benefits, Basefsky said, is, "It establishes a way to share opportunities throughout the school and with anyone on campus working on workplace issues. Another is a guarantee of least two Cornell student internships at the ILO and two faculty research slots at the IILS a year, with office space and computers provided."

Harry Katz, the Jack Sheinkman Professor in Collective Bargaining at the ILR School, is excited about the possibilities that formalizing the relationship offers. "It creates a platform for more internships, exposes faculty to a branch of the ILO [the IILS] that has some really high-quality researchers in international comparative labor and connects students to some really interesting work being done at the ILO," he said. "It also is an experiment that may offer guidance for other international exchanges at the school."

Associate Professor Maria Cook, who heads a committee looking for ways to broaden the school's international reach, agrees: "It expands the international study and work opportunities available to ILR graduate and undergraduate students" and opens doors for faculty researchers. "Both the IILS and the ILR School are committed to quality research and education to enhance opportunities for decent work around the world. This partnership will allow us to combine forces toward this common goal."

The expanded student internship arrangements, promoted by Professor Cletus Daniel, is seen as a big plus by Bryan Randall, an ILR graduate student who will intern at the ILO in Geneva starting in January 2004. "I look at this as an exciting opportunity to work with two of the leading institutes of labor and gain valued hands-on experience and skills that will help me with my future goals," Randall said. "It also is a chance to meet professionals and academics from around the world who are committed to decent work for everyone."

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**Cornell Chronicle**
**Vol. 35, Number 9, October 9, 2003**
**Academic**
***http://www.news.cornell.edu/Chronicle/03/10.9.03/ILR-ILO_agreement.html***
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