

Research Highlight

Pay for Performance

Incentive pay is used widely throughout corporate America: more than 65 percent of companies offer some form of variable compensation to employees below the executive level. However, many companies use pay for performance in a manner that is inconsistent with the main theories on which pay for performance compensation was based, according to new research by Janet Marler, Assistant Professor of Management at University at Albany-SUNY; and George Milkovich and Yoshio Yanadori of Cornell's ILR School.

"Pay for performance has been used for a long time at the executive level to improve performance and align interests of employees with stockholders," says Marler. "But in the last 10 years, it's become a growing phenomenon among lower level managers. An increasing proportion of jobs now have a variable pay component."

The researchers analyzed longitudinal compensation and financial performance data of more than 100 companies from the late 1990 period. They examined whether better-performing organizations used bonuses and stock options, and also looked at whether less risky or smaller, high growth organizations were more likely to use broad-based stock options.

These data, which came from a major compensation-consulting firm, showed that:

An organization's performance, risk, size, and strategy all affect how companies use short-term bonus payments. Contrary to what theory predicts, however, only performance differences explained why companies used stock options grants. "We expected that companies with less predictable earnings would use stock options less," says Marler. "We did not find this relationship."

Smaller, fast-growing organizations rely more on variable compensation than larger, slow-growth organizations. They pay their R&D managers higher short-term incentives but the difference is surprisingly small. Each 10-year difference in a company's age means a difference of around 0.2 percentage points in bonus pay. There was no difference across these types of companies in the use of stock option grants.

Executives typically get the lion's share of the variable compensation pool. While broad-based variable pay is positively correlated with company performance, higher performing organizations appear to reserve it mainly for top managers. For each "level" an employee descends in a company, he/she loses an average of 8 percent variable compensation.

Larger organizations substitute greater supervision for incentive pay at lower levels. Reliable managerial oversight replaces riskier

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variable pay as the preferred mechanism for reducing costs.

Maximizing shareholder profits doesn't appear to be the major reason why companies install performance-based pay programs. "It's clear that organizations are propelled by forces beyond the scope of the original pay for performance theorists," says Marler. She recommends that companies reexamine the thinking behind their pay for performance programs and reevaluate them based on their current application and results. 

For more information regarding this research please contact Professor Janet Marler via email: marler@albany.edu, or Tel: (518) 442-4954. This article references research from the CAHRS Working Paper #02-05, which can be found on our web site: <http://www.ilr.cornell.edu/cahrs/WPapers.html>.

Up-Close with ...

John Hofmeister Of Royal Dutch/Shell Group, Inc.

For John Hofmeister, HR Director at Royal Dutch/Shell Group of companies, a \$180 billion global petroleum giant operating in 155 countries worldwide, business strategy and HR strategy are inextricably linked. "Our company operates in geopolitical uncertainty," he says. "Talent management, development, cohesion and HR excellence are all critical requirements for success in this environment."

Based in The Hague, Hofmeister heads the function that includes some 2,000 HR professionals across Shell businesses, including 800 HR shared services staff. They provide expertise in talent management, learning, diversity, remuneration and benefits and other specialty areas from service centers on four continents (North America, Europe, Asia, and Australia). Hofmeister manages via a 13-person HR council, which includes the Group's Chairman, business HR and corporate center leaders.

Key business challenges Royal Dutch/Shell faces include: growth, cost leadership, portfolio upgrading, operations excellence, customer and stakeholder satisfaction as well as sustainable development. Issues of oil price volatility and geopolitics intensify these challenges. Says Hofmeister, "Our company defines success by operating in all regions. We are as dependent upon the Middle East and the U.S. as we are on Asia, Africa, Europe, South America and Australasia."

The company's HR program for addressing its challenges includes:

Talent management. Royal Dutch/Shell's history dates from the 1850's and it has historically valued long tenure of staff. "We need to keep our workforce evergreen to maintain competitive advantage," says Hofmeister. Shell has launched a group-wide assurance reporting process to reinforce its commitment to diversity and inclusiveness.

Leadership education. To keep its workforce motivated, educating Royal/Dutch Shell's 10,000-person management group is a continuing challenge.



*John Hofmeister,
HR Director,
Royal Dutch/Shell
Group*

Issues of concern to employees change dramatically by country: for example, one-quarter of the company's assets are in the U.S., another 20 percent are in the Middle East. Respect for the needs and concerns of staff, customers, and business everywhere is core to leadership education, according to Hofmeister.

Global HR information technology. "We've created 200 HR information systems over the years and will move to a single system by 2004," says Hofmeister. The new system, which will standardize staff processes worldwide, is expected to significantly improve HR productivity and create value globally.

HR functional excellence. Through training, coaching, mentoring, and experiential development, Royal Dutch/Shell is developing HR leaders and professionals to perform at their top capacity and bring value to businesses.

Employee value proposition. In addition to a core workforce of 115,000 employees, Royal Dutch/Shell relies on relationships with more than 1.2 million contingent staff who support the company every day. "All staff have to represent our values, follow our standards and live our business principles," says Hofmeister. "We believe an engaging work life is critically important."

In a company as massive and decentralized as Royal Dutch/Shell, HR strategy is essential to business strategy. Says Hofmeister, "Our people strategy supports our business by promoting affiliation and cohesion across Shell."

A native of New Holland, Pennsylvania, Hofmeister was educated at Kansas State and spent the first 15 years of his career at General Electric, where he joined the HR management program and worked in five of the company's businesses. After that, he served with Northern Telecom for five years and was the U.S. HR VP. He joined AlliedSignal as VP of Aerospace HR, followed by two years in Hong Kong as VP of International HR. Hofmeister joined Shell in 1997. 

Royal Dutch/Shell Group, Inc., joined CAHRS in 1993; the 'Up-Close With ...' profiles feature interviews with leaders of CAHRS sponsors.

*Customized International HR***SK** Custom Executive Development Program

SK Group recently completed its fourth week-long Custom Human Resource Executive Development Program from August 28 through September 5, 2002. The group of 24 Human Resource managers from over 14 divisions of the Korean-based SK Group (www.sk.com) visited Cornell University for this special event.

The program design integrated presentations from Cornell University professors and international corporate leaders, and included site visits to Philip Morris in New York City and Xerox Corporation in Rochester. Professor Scott Snell, Director of Executive Education for CAHRS, led the program in partnership with Mr. Seyeon Hwang, Senior Manager in the Office of Corporate Management and Planning, SK Group.

The program presented essential and strategic human resource elements necessary for developing and implementing global HR policies at corporate and regional businesses. Topics included: strategic HR in global organizations, HR vision and strategy, agility in rapidly changing organizations, global reward strategies, emerging trends, measuring strategic HR management, strategic staffing, designing effective organizational structures, and customer relationship management.

Specifically designed for SK, this program contained a variety of research experts from the ILR School's HR studies department (John Boudreau, Chris Collins, Lee Dyer, George Milkovich, Scott Snell, Pat Wright and Rose Batt), the Department of Collective Bargaining, Labor Law and Labor History (Harry Katz), Labor Economics (Gary Fields), and Cornell's Johnson Graduate School of Management (Jan Katz).

Philip Morris Senior Vice President of HR, Kenneth Murphy, hosted the group for a site visit at their New York City office on the first day of the program. "We had a great day with our HR colleagues from SK Group. Although we operate in very different businesses and environments, we were both struck by the similarity of the issues we face and in the structural responses both of our HR groups have made to address them," said Ken. On the last day of the program executive William Strusz, Director of Total Pay, HR Technology & HR Services for Xerox, hosted the group in their Rochester, New York office. "Xerox was honored to host our SK colleagues," he said. "We included the U.S. Vice President and General Manager, Hiro Matsubara, of

our Fuji Xerox affiliate to welcome our visitors and provide a contact for business in the Far East. My team and I were impressed by their focus and understanding of our HR strategies as we presented them. They then shared an overview of SK's HR initiatives, which showed many

similarities to what we see in those of progressive U.S. based companies. I was also impressed by the sincere appreciation they showed for our efforts."

The SK managers remarked favorably: "The HR seminar at Cornell was a very valuable experience in which we could get insights regarding the strategic role of HR in our highly competitive

global business environment. The in-depth discussions on the advanced HR theories and best practices with the world-famous professors of Cornell were greatly useful for us. Moreover, I will never forget the beautiful campus surrounded by dense forests and calm lakes," said Kang Moo Lee, HR Manager, HR Management Team; Young-Bok Lee, Senior Manager of SK Engineering and Construction commented, "It was a great opportunity for our SK managers to confirm the globalization trends and to study the advanced HR system, strategy, and practices through the HR seminar. We could find the importance of functional integration (strategy, IT, marketing, operation management) in connection with HR and customer relationship management. I believe that the HR seminar was very valuable to SK managers in relation to developing the successful HR Management in SK."; and Seyeon Hwang, Senior Manager, HR Team commented, "This seminar was an eye opener to me in light of strategic HR, a holistic view on HR, fact-based approach, and relentless execution. I believe every SK participant was more equipped and stimulated for becoming a real strategic partner for company success through this HR seminar. We will try to advance further our HR systems in reflection of lessons from the seminar, and I expect in the near future we will be able to share our ideas and findings with CAHRS and other HR people around the world like Philip Morris and Xerox Corporation." 

**XEROX**

For more information on CAHRS and ILR Executive Education programs, please contact Michelle Eastman by phone at 607-255-2790 or email mre2@cornell.edu.



SK Group Executives with Dr. Scott Snell and Michelle Eastman, CAHRS.

ILR Student Orientation

CAHRS Sponsor Executive Roundtables

One unique and valuable aspect of the CAHRS partnership is the opportunity for CAHRS executives to interact with future HR professionals beginning their studies at Cornell, and to shape their educational and career choices. For the sixth year, the ILR Orientation and CAHRS Executive Roundtables offers our sponsor company representatives and ILR Graduate and select Senior students an opportunity to come together to exchange questions and ideas about the field of HR. Discussion topics center around the most important issues facing individual companies, the skills needed by future HR professionals, and what companies look for in recruiting entry-level professionals.

For the past several years, as part of the event we have conducted a survey to understand from the students' perspective how they feel about the roundtable sessions. This past year, as in others, the remarks were all very enthusiastic. Examples of the remarks made include positive impressions made by the executives on the students: a first year MILR student said "This was one of the best experiences I've had, the format was excellent," another stated "Everything was absolutely amazing, it was a great experience for me to talk to the HR executives personally." The students rated the quality and amount of interaction with the executives very high, and noted the valuable insights they received and the personableness of the executives, as the most important factors. The student attendance at this annual event has grown each year, with this year drawing over 80 students.

Executives rated the event with the same excitement: "These are good sessions, informal, interactive, personal, and the students were very well prepared," one noted. "The student resume drop box is a good idea," and "the informal reception provided the right amount of time for contact and follow-up," affirmed others. Due to space limitations and the growing popularity of this event among our sponsor representatives, the number of executives allowed to participate is limited.



Bill Tompkins - American Express



Thomas Weidenkopf - Honeywell



Lisa Kelly - Monsanto



Phil Webber - IBM



Mike D'Ambrose - Toys 'R' Us



Marc Kanoff - Bristol-Myers Squibb



Bill Rosner - PNC Financial Services Group



George Davis - Lincoln Financial



Paul Kurpp - Verizon Communications



Gerard Penning - Shell International BV



Randy Kiviat - The Hartford Financial Services Group

The following companies participated in the ILR Orientation and CAHRS Executive Roundtables this past August 27, 2002:

- Ron Hiserodt, Director Compensation and Benefits, ALCOA
- William Tompkins, VP Compensation Consulting, American Express
- Marc Kanoff, Sr. Director Univ. Partnerships & College Recruiting, Bristol-Myers Squibb
- James Duffy, VP Senior HR Officer, Citigroup
- John Haggerty, VP HR, GE Industrial Systems
- Thomas Weidenkopf, SVP HR and Communications, Honeywell
- Philip Webber, VP HR Corporate Technology & Manufacturing, IBM
- George Davis, SVP HR, Lincoln Financial
- Wendy Yarno SVP HR, Merck
- Lisa Kelly, HR VP for Research and Development, Monsanto
- Bill Rosner, Chief HR Officer, PNC Financial Services Group
- Gerard Penning, Talent Pipeline Manager, Shell International BV
- Dee Alcott-Rodriguez, SHR Director of HR Strategy & Planning, Sun Microsystems
- Randy Kiviat, Group SVP HR, The Hartford Financial Services Group
- Michael D'Ambrose, Executive VP HR, Toys 'R' Us
- Paul Kurppe, Executive Director of Employment, Verizon Communications
- William Strusz, Director of Pay and HR Technology and Services, Xerox

The date for next year's orientation is set for August 26, 2003 and will be limited to 15 CAHRS sponsor companies.

Information on the roundtables sessions can be found on our website:

<http://www.ilr.cornell.edu/cahrs/orientation.html> . 

If you would like to participate in the roundtable sessions for next year, please contact: Jo Hagin, Executive Staff Assistant, CAHRS, 187 Ives Hall, Cornell University, Ithaca, NY 14853-3901 USA, Phone: 607-255-9358 or email: jap7@cornell.edu .

Company HR Profile

Sun's HR Talent Lab

Sun Microsystem's HR R&D Laboratories was launched in August 2000 to create leading-edge HR programs and policies by drawing on the latest in industry trends and academic research. Since then, the Labs have exceeded their original mandate. It's now an incubator for research that identifies and informs crucial strategic talent decisions faced by Sun's businesses.

A true "talent" lab, Sun's HR R&D Labs tackles projects for "clients" outside of human resources at the Santa Clara-based technology company. Says Dee Alcott-Rodriguez, Sun's Vice President of Talent Development, "We've become more involved with the business strategically."

Designed on a highly leveraged model, the HR R&D Labs has only 2.5 full time employees — Alcott-Rodriguez, Jay Moldenauer-Salazar and a rotation of HR new hires. It staffs projects by drawing on intellectual expertise, as needed, from major research universities throughout the U.S. "I'm always looking for top faculty members who are going on sabbatical," says Alcott-Rodriguez.

Cornell Professor John Boudreau was enlisted as the Labs' first visiting director, and relocated to Sun's headquarters in Santa Clara for six months in 2001 to assist in developing its vision and deployment. More than 30 Sun volunteers also support the full-time R&D Labs staff on various projects.

One of the R&D Labs' earliest achievements came about when Sun's top corporate strategy executive asked why some acquisitions succeed and some fail. Moldenauer-Salazar, formerly a Sun organizational psychologist, analyzed a selection of Sun's past acquisitions, wrote Harvard Business School-style cases comparing their similarities and differences, and discovered four key factors that led to successful acquisitions. To validate his findings, he replicated his initial analysis on several larger Sun acquisitions. The result: a "checklist" or template for future acquisitions.

"The work we've undertaken is about complex questions that span functional boundaries and require a whole system analysis. Sun's HR R&D Lab is ideally suited to handle this challenge," says Alcott-

Rodriguez. "For example, John Boudreau's research is exploring how Sun can better identify those talent areas that are most pivotal to our strategic success."

Another early R&D Labs project assessed whether virtual work — allowing U.S. employees to work from home, hoteling, and other dispersed arrangements — could fuel Sun's strategic initiatives while reducing the company's real estate outlays. With the help of three NYU professors, Moldenauer-Salazar and Alcott-Rodriguez created a large-scale survey that was sent to more than 20,000 Sun employees. Based on employee input, Sun designed a program to support work arrangements for any Sun employee who wanted flexibility on where they did their work.

Bringing scientific research methods and academic talent together to address issues of strategic importance to Sun is one of the hallmarks of the Labs' approach. Says Moldenauer-Salazar, "We apply the full social science toolbox to organizational questions."

The group is now asked to address a variety of questions, from helping a Sun product group innovate more often to providing company-wide tools for data collection and analysis. Sun's internal HR groups regularly contact Moldenauer-Salazar about designing surveys and focus groups, dealing with survey information once they have it, and interpreting interview results done a year ago by someone else.

Says Jonathan Schwartz, Sun's Executive Vice President and Chief Strategy Officer, "The work of the HR R&D Labs goes beyond what we have traditionally expected from our HR function. They know the strategic priorities of the business. They are data driven. They produce insightful, thought-provoking, business-relevant results. This just goes to show what you can do when you get a small group of really smart people together." 

For further information about Sun's HR R&D Laboratories, please contact Patty Woolcock, Executive Director of The California Strategic Human Resource Partnership, tel: 408-257-5334, or visit their website at <http://www.cshrp.com>. For full text of this research read CAHRS WP02-19 "Sun's HR Labs: Driving Decisions With Data" available on our website: <http://www.ilr.cornell.edu/cahrs/WPapers.html>.

Sun Microsystems, Inc. joined CAHRS in 1998; the 'Company Profile' series feature a corporate HR view of new CAHRS sponsors.

In The News

2002 Lee Hecht Harrison Award Winners Announced

Emerging Workforce & Employment Issues During Turbulent Times

Cornell University students Jeff Ericksen and Luke Vernon have been named winners of the "Best Student Paper Award," sponsored by global career services company Lee Hecht Harrison and Verizon Communications. Ericksen will receive \$1,200 for his winning graduate-level paper titled, *"Mobilizing and Launching Project Teams to Capitalize on Emerging Opportunities: Initial Findings and Recommendations,"* as will Vernon for his undergraduate work entitled, *"The Downsizing Dilemma: A Manager's Toolkit for Avoiding Layoffs."*

The author(s) of each finalist paper will receive \$200 for their prize. Undergraduate Finalists were: Jonathan Blank, *"Power of the Pendulum: Analysis of the West Coast Maritime Industry Collective Bargaining Relationship,"* along with Joseph Pylman and Suchi Mithani, *"National Labor Relations Board vs. Mackay Radio: Mitigating Opportunism, Enhancing Self-Government, and Encouraging Human Capital Investments."* Graduate Finalists were: P. Monique Valcour, *"How Does the Use of Career Strategies Affect Career Success Outcomes,"* and Hilary Himes, *"Global Teams: A Compensation Challenge for the International Business."*

For more information and to view the winning papers visit the CAHRS website:
<http://www.ilr.cornell.edu/cahrs/LHHAIWinners.htm>

CAHRS FALL SPONSOR MEETING

November 13 - 15, 2002 • Ithaca, New York

Restoring Trust: HR's Role in Corporate Governance

MEETING INFORMATION: During the past year, corporations have been drawn into scandals including unethical leadership, corrupt analysts, accounting fraud, passive boards, and questionable executive pay. As we invite you to attend our Fall 2002 CAHRS meeting at Cornell University, the crisis in corporate governance continues. CAHRS has invited Cornell HR and Law faculty, CAHRS Verizon graduate students, ILR and Johnson School Deans, HR leaders from CAHRS sponsor companies, and representatives from the SEC and Institutional Shareholders Services to discuss these issues. From an HR perspective our presenters will share their stories and stimulate discussion with the intent of providing direction in building effective Board's of Directors and leadership teams, healthy corporate cultures and reward systems that are ethical. We hope that you will be able to join us for this meeting and leave inspired and enthusiastic about what you can do as an HR leader to restore trust in corporate America.

Inquiries, please contact:

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Dr. Pamela Stepp
Managing Director



CAHRS EVENTS CALENDAR

2002/2003

Executive Guest Class Lecturers –

- Bob Corcoran, VP Corporate Leadership Development October 8, 2002 Ithaca, NY
General Electric
- Frank Ashen, Executive Vice President October 24, 2002 Ithaca, NY
New York Stock Exchange

CAHRS Executive Briefing Profiling IBM October 9, 2002 Armonk, NY

Executive Guest Lecture -

- Developing Leadership and Culture at IBM* November 7, 2002 Ithaca, NY
Federico Castellanos, VP of HR Global Sales & Distribution
IBM

Executive Guest Class Lecturers –

- John Hofmeister, HR Director November 12, 2002 London, UK
Royal Dutch/Shell Group
- Dennis Liberson, Executive VP, HR & Corporate Real Estate November 15, 2002 Ithaca, NY
Roberta Douma, VP HR
Capital One

CAHRS Fall Sponsor Meeting 2002 November 13-15, 2002 Ithaca, NY
Restoring Trust: HR's Role in Corporate Governance

CAHRS Spring Sponsor Meeting 2003 May 7-9, 2003 Ithaca, NY

CAHRS Executive Briefing Profiling Shell June 26-27, 2003 London, UK

CAHRS Sponsor Executive Roundtables August 26, 2003 Ithaca, NY
for the ILR Student Orientation

International Human Resource Executive Postponed to Fall 2003 Ithaca, NY
Development Program, (A One-Week Program)

CAHRS Fall Sponsor Meeting 2003 November 12-14, 2003 Ithaca, NY

Other ILR Events

Cornell Annual Career Fair September 24-25, 2002 Ithaca, NY

Creating Competitive Advantage October 6-11, 2002 Ithaca, NY
Through People

ILR Career Fair October 17, 2002 Ithaca, NY

Delivering Competitive Advantage March 30 - April 4, 2003 Ithaca, NY
through HR Systems

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

