

Proceedings of the 2003 Fall Meeting

IBM Site Visit

Proceedings of the 2003 Fall Meeting

*by
Dawn Chandler*

*Human Resources Policy Institute
2003 Fall Meeting
October 28-30, 2003*

Contents

	Page
Meeting Agenda	1
Summary	3
Presentation Summaries Wednesday, October 29, 2003	
Overview of IBM Executive Briefing <i>J. Randall MacDonald</i>	4
IBM's On Demand Workplace <i>Jon Iwata</i>	8
Making Pay for Performance a Reality & Changing Employee Benefits Landscape <i>Diane Gherson</i> <i>Rich Calo</i>	12
Attracting, Motivating, & Retaining the Best Talent in the IT Industry and Global Optimization <i>Donna Riley</i> <i>Garrett Walker</i>	17
HR Business Transformation <i>Barbara Brickmeier</i> <i>William Matson</i>	23
Driving Performance Through Learning <i>Edward Hoff</i> <i>Nancy DeViney</i>	29
Workforce Diversity: A Competitive Advantage <i>Ted Childs</i> <i>Steven Jarrett</i>	34
Thursday, October 30, 2003	
Panel: Lessons Learned at IBM <i>Jean Halloran</i> <i>Stephen Sheehan</i>	39
Roundtable Discussion	45



**HUMAN RESOURCES POLICY INSTITUTE
2003 FALL MEETING AND IBM EXECUTIVE BRIEFING**

OCTOBER 28-30, 2003

**IBM CORPORATION LEARNING CENTER AUDITORIUM
ARMONK, NY 10504**

**HILTON RYE TOWN
699 WESTCHESTER AVENUE
RYE BROOK, NY 10573**

October 28, 2003

7:00 p.m. *Welcome Dinner at Hilton Rye Town*

October 29, 2003

6:45 a.m. Assembly and Departure for IBM Learning Center

7:15 a.m. – 8:00 a.m. *Continental Breakfast*

8:00 a.m. – 8:30 a.m. **Opening**
Fred K. Foulkes
J. Randall MacDonald
Steve Jarrett

8:30 a.m. – 9:30 a.m. **IBM's On Demand Workplace**
Jon Iwata
Moderator: Professor Fred K. Foulkes

9:30 a.m. – 10:00 a.m. *Break*

10:00 a.m. – 11:30 a.m. **Making Pay for Performance a Reality
and Changing Employee Benefits Landscape**
Diane Gherson
Rich Calo
Moderator: Professor Fred K. Foulkes

11:30 a.m. – 12:30 p.m. *Lunch*

12:30 p.m. – 1:30 p.m. **Attracting, Motivating & Retaining the Best
Talent in the IT Industry and Global Optimization**
Donna Riley
Garrett Walker
Moderator: Professor Elizabeth Craig



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- 1:30 p.m. – 2:30 p.m. **HR Business Transformation**
Barbara Brickmeier
Bill Matson
Moderator: Professor Aimin Yan
- 2:30 p.m. – 3:00 p.m. *Break*
- 3:00 p.m. – 4:00 p.m. **Driving Performance Through Learning**
Ted Hoff
Nancy DeViney
Moderator: Professor Tim Hall
- 4:00 p.m. – 5:00 p.m. **Workforce Diversity: A Competitive Differentiator**
Ted Childs
Steve Jarrett
Moderator: Professor Tim Hall
- 5:00 p.m. – 5:30 p.m. **Closing Thoughts**
Fred K. Foulkes
Steve Jarrett
J. Randall MacDonald
- 5:30 p.m. – 6:30 p.m. *Reception*
- 6:30 p.m. – 8:00 p.m. *Dinner at IBM*
- 8:00 p.m. Depart IBM for Hilton Rye Town

October 30, 2003

- 7:30 a.m. *Breakfast Buffet Begins*
- 8:00 a.m. – 9:15 a.m. **HRPI Panel: Lessons Learned at IBM**
Jean Halloran
Stephen Sheehan
Moderator: Professor Tim Hall
- 9:15 a.m. – 9:45 a.m. *Coffee Break*
- 9:45 a.m. – 11:45 a.m. **Membership Roundtable and Group Discussion**
- 11:45 a.m. – 12:00 p.m. **Wrap Up and Conclusions**
- 12:00 p.m. *Luncheon Buffet*
- 1:00 p.m. Adjourn

Summary

As one of the world's iconic corporations and one with a rich history, IBM was an appropriate site for Human Resources Policy Institute members to examine important trends and challenges in the HR field. A global corporation with roughly \$80 billion in revenues and 315,000 employees, IBM strives to lead in the invention, development and manufacture of the industry's most advanced information technologies, including computer systems, software, storage systems, and microelectronics. IBM translates these sophisticated technologies into valuable offerings for its customers through professional solutions, services, and consulting businesses worldwide.

Over the last twenty years, IBM has experienced tremendous change and is currently *transforming* in order to better serve its clients and constituencies across the globe. On Wednesday, October 29, 2003, IBM human resources executives described implementation of the company's new overarching strategic business initiative—IBM Business On Demand—and its implications for the human resource function. Further, the group explained its proactive aims at evolving the HR function in order to provide the greatest value to employees. Throughout the day, speakers conveyed not only their group's strategic focus, goals, and action plans, but also the ways in which their respective strategies aligned with other HR business groups and with the corporate strategy as a whole.

On Thursday, October 30th, the Human Resources Policy Institute meeting produced valuable insight surrounding salient HR issues including health care costs, executive compensation, and employee benefits, in addition to a panel discussion on the lessons learned at IBM.



Overview of IBM Executive Briefing

J. Randall MacDonald

Senior Vice President, Human Resources

After introductory comments by Fred Foulkes and Steven Jarrett, J. Randall MacDonald set the stage by outlining IBM's new business model and the key differentiators and strategies that guide the HR executive team as they strive to proactively drive organizational change.

Randy MacDonald, Senior Vice President of Human Resources, believes that the greatest achievement of the HR executive team during his tenure has been in their collective embrace of change. Further, as he succinctly stated during the lunch hour, Randy looks forward to continual proactive change in the future. Rather than Human Resources acting as a reactor to change, he hopes that the group can instead be a catalyst toward positive transformation.

Both Randy's introductory and lunchtime remarks were aimed at introducing and providing context for the six primary agenda topics: IBM's On Demand workplace; Making Pay for Performance a Reality and the Changing Employee Benefits Landscape; Attracting, Motivating and Retaining the Best Talent in the IT Industry and Global Optimization; Human Resources Transformation; Driving Performance Through Learning; and Workforce Diversity: A Competitive Advantage.

- *How does IBM ensure it effectively and efficiently aids its customers and maximizes the productivity of its employees?* **IBM's Business On Demand** is both a new, innovative business model and technology tool that drives job content from "front to back-end." On Demand is about knowledge management. The On Demand Workplace simplifies access to content, applications, people, and processes. It includes a security-rich enterprise-wide portal designed to enable people to work virtually anywhere, anytime, as well as faster and more effectively. The result is a personalized workplace, tailored specifically to each person's role.

As an example of On Demand, Randy described one feature of the model, the Expertise Locator. Should an individual in Budapest, for example, face a problem with which he is unfamiliar, the web-based locator identifies IBM employees across the globe who previously dealt with the problem and details their respective solutions.

- *How does IBM best incentivize and reward employees? **Pay-for-Performance**, IBM's compensation template, differentiates pay based on varying levels of employee performance. At IBM, employees anticipate a wide separation of compensation between the "best" and "worst" performers. Consistent with an organizational culture that values innovativeness and excellence, IBM's incentive system guides employee efforts by rewarding top performers with compensation that exceeds the IT industry average.*
- *What are IBM's challenges related to attracting and retaining exceptional intellectual capital? IBM's human resources group supports a **human capital talent** pool of 315,000. In 2002, the company churned one third of its workforce. Several forces, including the acquisition of PricewaterhouseCoopers, employees returning from or taking leaves of absence, outsourcing, as well as hiring in support of growth, were responsible for the churn. Another challenge relates to the 75,000 contract employees who are among IBM's workforce.*
- *How does IBM design a benefit plan that fits the needs and characteristics of its workforce? IBM is transforming its **benefit plans** to better serve its diverse talent constituency. For example, 50 percent of employees have less than five years of service; 15 percent of employees have 15 or more years of service with IBM. Furthermore, with a diverse workforce that reflects broad demographic trends, IBM must effectively manage pension and other retiree benefits for employees who are approaching, or have reached, retirement age.*



- *How does IBM optimize its talent globally?* IBM takes careful consideration of the location of its global workforce. Strategies related to the **global optimization**, or deployment, of talent are based on the alignment of current and projected talent needs with the overall corporate strategy and value system.
- *How does the IBM human resources team meet its goal of acting as a business partner to corporate senior management and adding high value?* **HR's business transformation** goal is to focus on high-value activities at the strategic level. By leveraging the company's technological competencies, the HR team is working toward standardizing and transforming transactional activities to both lower overall costs and allow for more emphasis on strategic-level initiatives.
- *As a company that leverages knowledge workers, how does IBM ensure the continual growth of human capital talent?* IBM is committed to **driving performance through learning**. Historically, human resources focused on employee growth through formal training and management. Now, IBM believes that the future is based on learning through mentoring, e-learning, and peer networks, in addition to more traditional approaches. In 2002, \$650 million was spent on learning, down from \$1 billion in 2001. Rather than representing less commitment by IBM, the reduced figure highlights more efficient implementation. Currently, 55% of employees learn through online programs. Meaningful content is critical to continued application of e-learning. Particularly in a technological environment that changes rapidly, employees must be able to adapt and build new, "hot" skills quickly.

- *What value does IBM place on a diverse workforce and equal opportunity employment?* IBM is a benchmark for corporate **diversity** practices. During its 100 years of business, IBM has demonstrated a commitment to the value of its diverse workforce, resulting in a number of prestigious awards for excellence in diversity practices. The recent acquisition of PwC presents IBM with a diversity challenge. Sam Palmisano and the human resources team have put together a three-year plan to return to the desired diversity representation.

IBM Differentiators, Strategy Focus Areas, and the HR Scorecard

Each of the aforementioned topics is consistent with IBM's corporate differentiators and strategic focus areas. IBM differentiates itself from its competitors on five key criteria. The human resources team continually renews the differentiators using five strategic focus areas and has created metrics to measure their attainment. Taken together, they constitute the HR Scorecard.

Differentiators: (1) Diversity, (2) Workplace Flexibility, (3) Performance Differentiation, (4) Learning, (5) Leadership.

Strategy focus areas: (1) Workforce Optimization, (2) People Development, (3) Leadership and Climate, (4) Performance, (5) HR capability.

The HR Scorecard is one of many scorecards, which, when combined, represent the overall IBM Scorecard. By linking people, strategy, and performance, the IBM team is able to orchestrate an aggressive, focused effort in implementing the On Demand Workplace.



IBM's On Demand Workplace

Jon Iwata

Senior Vice President, Communications

Jon Iwata, Senior Vice President of Communications, guided HRPI members through a historical account of IBM's success in the 1980s, near demise in the early 1990s, resurrection, and current transformation as it implements its new strategic initiative. Throughout the last few decades IBM has experienced culture change. In the 1990s, change was thrust upon IBM as it faced a crisis; today, in contrast, change is being embraced as an imperative to facilitate the On Demand strategy. Over time, IBM has learned that in order to continue to be a global leader in a turbulent environment, it must continually transform and renew itself.

IBM's Historical Success and Near Death Experience

At IBM, people are indoctrinated with a certain way of conducting business. It is of utmost importance that IBM's culture is one characterized by a uniformity of beliefs and principles that properly guide employee actions. Today, IBM's culture fits this description. In the early 1990s, however, this was not the case.

Between 1970 and the mid-1980s, IBM was a paragon of success. With its stellar track record, IBM was among *Fortune's* "Most Admired Companies," was one of the case study corporations in Peters and Waterman's *In Search of Excellence*, and, in general, was an icon in world business. By the early 1990s, however, IBM did not adapt to the changing environment, resulting in a calcified, fragmented culture and a "near death experience." IBM's insularity caused a lack of awareness of both client needs and of key competitors' strategies and actions. In 1992, IBM was among the list of *Fortune's* "Dinosaurs." Given the "do or die" situation, adaptability and change were essential to survival.

IBM's Resurrection and the Intranet

With Lou Gerstner at the helm, the company began to awaken from its gloom. Among Lou's priorities was the dissolution of the autonomous, siloed groups that resided within the company and a reunification of a strong, unified culture. One step toward this end has been the reengineering of IBM's intranet system, which in 1996 had just over 8,000 sites. Although the reshaping of the intranet system did not entirely alter the culture, the creation of one interface allowed for a common experience among IBM employees. In a similar vein, IBM dismantled the plethora of divisional newsletters that had sprung up across the organization. Again, by creating fewer communication channels, employees would receive consistent messages from which they would interpret IBM principles, beliefs, and values. By 1999, IBM had 4,000 intranet sites with over 380,000 visits a day. Today, IBM has just over 2,000 sites.

As an integrative platform to create the IBM experience, IBM's On Demand Workplace, known as W3 to employees, was implemented. The W3 solution, which uses software from across the IBM Software portfolio, has applications including: MyNews, Blue Pages, Performance Scorecard, e-HumanResources, e-Learning, and Persona pages.

- **MyNews**

Another way of personalizing the IBM experience and enabling employees to be efficient was the creation of "MyNews." Using Factiva, a Dow Jones and Reuters company, IBM built MyNews home pages for employees, providing a single point of access to a deep archive of news and business information, and reducing the time employees spent seeking information. Furthermore, each home page is customized for a single employee, tailored to an individual's knowledge needs and interests. Jon described MyNews as "self created newspapers" to which employees subscribe by choosing precise information among categories—competitor, industry, customer, and technology.



- **Blue Pages**

Blue Pages, the online employee directory, is the most commonly used intranet application at IBM. The tool has become a valuable source to find the right people to get the job done. Personnel information, such as projects, skills, certifications, business interests, and team data can be fed into the Blue Pages, enabling employees to search by many criteria.

- **Performance Scoreboard**

In the 1990s, IBM reinvented its compensation and reward system to include group variable pay in addition to individual and organizational pay components. Business operation P&L information, which before was confidential to that business unit, was posted on IBM's intranet as part of a Performance Scorecard. In this way, IBM's intranet became a key vehicle to convey accurate, and sometimes less than favorable, business performance indices to employees. Even today, the most heavily trafficked intranet period coincides with the release of group performance data. The Scorecard keeps employees up-to-date on key performance measures, including employee status, performance by business unit, and stock turns.

- **e-Human Resources**

Another feature of IBM's intranet allows complete access to an individual's own compensation and benefit, health, expenses, and other personal information. This self-service tool simultaneously reduced human resources costs and increased employee satisfaction.

- **e-Learning**

More than 48 percent of IBM's workforce has received education and training online through IBM's "Global Campus."

- **Persona Pages**

Persona Page is another vehicle for providing and obtaining information on employees. Each employee completes a profile, including name, email, phone number, and project information.

From that point, every persona page can be personalized to reflect the role and interests of the employee. Using persona pages, managers can view employee activities and expenses, and can monitor skill development.

Jon explained that according to survey results, 75 percent of IBM employees use W3 daily, and two-thirds view it as critical to their job overall. In 1999, in a company-wide survey, W3 supplanted management as the number one source of information within the organization. In 2002, W3 and management are the two key sources of knowledge dissemination at IBM. Overall, W3 has had a profoundly positive influence on the culture at IBM.

Intranet Events

- **WorldJam 2001**

Between May 21 and 24, 2001, IBM held an intranet meeting in order to ascertain best practices from its employees. Over the three-day period, the WorldJam produced over six million hits and over 6,000 suggestions from employees. The event provided valuable insight from IBM's knowledge workforce and allowed employees a forum to participate and be heard by senior management and colleagues.

- **ValuesJam 2003**

IBM has always placed great emphasis on conducting business from a foundation of strong core values. IBM has three values: (1) Dedication to every client's success; (2) Innovation that matters—for our company and for the world; (3) Trust and personal responsibility in relationships. Currently, IBM is planning to gather expert information on its core values from employees around the globe.

Jon's historical overview of IBM and ongoing business initiatives provided a foundation for the five subsequent presentations, each of which related to a critical facet of IBM's Human Resources strategy.



Making Pay for Performance a Reality & Changing Employee Benefits Landscape

Diane Gherson

Vice President, Compensation and Benefits

Rich Calo

Vice President, Workforce Relations

In order to obtain the most knowledgeable talent in the IT industry, IBM has always placed emphasis on maintaining a top-notch compensation package. The primary vehicle for doing so is IBM's 'Pay for Performance' differentiator. In addition, IBM offers a competitive benefits package. However, IBM separates itself from its IT competitors by highlighting non-monetary aspects of its package, such as job flexibility and the ability to chart one's own career.

Diane Gherson, Vice President of Compensation and Benefits, and Rich Calo, Vice President of Workforce Relations, provided an overview of the human resources strategy related to 'performance', one of the five focus areas on the HR Scorecard.

Pay-for-Performance

As Diane and Rich explained to HRPI members, Human Resources is unfolding a "new era of pay." The team consistently asks, "What is needed to maintain a 'performance culture'? How do we reward employees so that we secure their best efforts?" They are currently addressing these questions with a second-generation compensation package.

1st generation: IBM's first-generation performance plan includes four underlying principles:

1. Employees participate in the success and risk of the business.
2. Pay our best performers like the best in the marketplace.
3. It's not just how we pay people; it's about getting the right mix of bands and grades.
4. Getting the right mix enables IBM's competitive pricing of services and projects.

The key facet of pay-for-performance is in the differentiation in pay among employees based on performance. In essence, IBM shows how much excellence is valued by paying high premiums to its ‘best’ performers. As Diane noted, IBM has been considered a “vanguard” in the industry with respect to differentiation in rewards based on performance. Differentiation in pay is a feature of compensation at all levels of IBM—from executive levels to consultants.

IBM differentiates on both base and variable components of the compensation package. With respect to differentiating base pay, 40 percent of IBM employees received no pay increase in 2002. This facilitates allocation of significant dollars to award to top performers. Top performers at IBM receive, on average, five times more in annual increases on base pay than bottom-level performers receiving base pay increases. In differentiating variable pay, which is based on business and individual level performance, top performers receive, on average, two-and-a-half times more pay than their contemporaries who are rated as ‘bottom’ performers.

Stock options are targeted at high potential candidates and at employees with ‘critical’ skills; 10-15 percent of IBM’s employee population are eligible for stock options each year. Since the budget for option grants is limited, even those who are eligible may not ultimately be recipients. Worldwide, ‘optionee’ attrition is lower than attrition for ‘non-optionees’.

2nd generation: The second-generation compensation package is designed to enhance IBM’s performance culture. Second-generation package features include:

1. Driving greater alignment of individual objectives with organization goals.
2. Motivating the ‘middle’ (performers).
3. Creating consequences for persistent low performance.
4. Recognizing the importance of managers.
5. Replacing absolute standards of performance with relative contribution indices.



In order to discern among overall levels of employee performance, and to guide employees toward personal, group, and organizational goals, IBM relies on the Personal Business Commitment (PBC) appraisal system. Each year, employees fill out commitment statements with their respective managers. The current PBC statement is segmented into three categories: win, execute, and team. The 'win' category relates to an individual's commitment to IBM's strategy and to his or her personal performance goals. The 'execute' category fosters effectiveness in processes related to win attainment. Finally, the 'team' category involves how well an individual is able to gain support from, and leverage, teamwork, both within and beyond an individual's immediate group.

IBM's second-generation compensation plan, to be unveiled in 2004, is designed to maximize performance incentives and drive better alignment of individual objectives with organizational goals. In recognizing the importance of individuals' immediate managers, Human Resources will train managers to take control of the process of rating their direct reports. To this end, Human Resources has developed eight general guidelines for managers to 'cluster' their reports on various ratings. Top performers will be 'lumped together' into a cluster, and so on.

Human Resources is working closely with managers to determine individual employee group bonus awards. Each business group will receive a pool at the end of the fiscal year based on its performance related to group goals and on IBM's overall fiscal performance. Each individual will receive a percentage of the group payout based on his or her performance relative to others. Human Resources is partnering with line managers to aid them in developing these goals, creating metrics for group performance measurement, and discerning relative performance among group members.

Diane and Rich described key goals of the upcoming second-generation compensation plan:

- Continued emphasis on fostering a ‘performance culture’.
- Expanding recognition for better performers.
- More clarity around performance ratings and metrics.
- Greater inclusion of managers in appraisal cycle.

IBM Benefits in the United States

IBM provides its employees with a broad array of competitive benefits. Overall, IBM’s benefits are higher than those of its competitors. Although IBM differentiates itself along criteria that employees have deemed most important—e.g., workplace flexibility, learning, and performance differentiation—the executive team recognizes the importance of protecting employees’ overall economic well-being.

As such, one of IBM’s benefits agenda items relates to providing employees with adequate health care. A key challenge in meeting this goal is a health care context characterized by four consecutive years of double-digit cost increases. Nonetheless, IBM benchmarks health care best practices, and allows employees the flexibility to customize plans according to individual and family needs. IBM offers three medical plan options as well as various HMOs, two dental plans as well as Dental Maintenance Alternatives (DMA), vision coverage, and Health Care and Dependent Care Spending Accounts. IBM’s benefits coverage includes an individual’s same-sex domestic partner, as well as spouse and eligible dependents.

As Diane explained, IBM is managing escalating health coverage costs by rewarding employees for healthy lifestyles—e.g., giving cash rebates for non-smokers and levels of physical activity; by shifting the subsidy to employees so that working spouses are more likely to join their companies’ plans; and by using per-person pricing plans. Pharmacy benefit costs are under control, and preventive care and chronic and acute users of the health care system are well protected by IBM.



One facet of IBM's solution is by acting as a founding member and leader of an industry coalition. Leapfrog, composed of more than 145 public and private organizations, works with medical experts throughout the U.S. to identify problems and propose solutions that it believes will improve hospital systems that could break down and harm patients.

IBM offers employees stock purchase and pension plans, as well as future health accounts. The IBM Savings Plan is considered to be the equivalent of competitors' 401(k) plans. IBM matches 50 cents on every dollar, up to six percent of pay. In addition, IBM offers a group of income protection plans.

*Attracting, Motivating, & Retaining the Best Talent in the
IT Industry and Global Optimization*

Donna Riley

Vice President, Talent

Garrett Walker

Global Resourcing Project Office & HR Strategy

Given IBM's competitive advantage in knowledge management and its large workforce, Human Resources works arduously to build an overarching system that maintains business unit integration, fosters the development of leadership talent, and strategically deploys and optimizes global talent.

Donna Riley, Vice President of Talent, and Garrett Walker of the Global Resourcing Project Office and HR Strategy, described how IBM (1) holistically approaches talent management, (2) deals with succession planning and leadership development and education, and (3) addresses global resourcing, to meet these ends.

IBM's Holistic Talent Management Approach

As Donna and Garrett explained, managing 425,000 employees presents a daunting challenge. To illustrate the complexity of talent management, in 2002, IBM had 63,000 employee additions and 68,000 departures; furthermore, it perceives its 73,000 contractors, 56 percent of whom are dispersed among 160 countries, as employees that are to be incorporated into the global workforce strategy.



Donna stated that, consistent with the criticality of integration and a unified culture at IBM, it is imperative that global sourcing and U.S. hiring transcend the business unit and support the corporation overall. As such, IBM has created ‘talent managers’ as liaisons between Human Resources and business unit management, whose goal is to align and link the needs of individual units with those of IBM as a whole.

Talent managers are the focal points of integration in hiring and managing resource levels at IBM. They support several global hiring issues, such as:

- Planning in order to handle swings in resource levels and needs;
- Integrating a large number of new hires each year, including role training and socialization into IBM; and
- Identifying the most viable vendor partnerships.

According to Diane, a dynamic response to the needs of the business has been IBM’s greatest challenge; talent managers are a key response to meeting it. The human resources and talent management functions are to plan, identify, motivate, develop, and integrate employees in response to individual, unit, and overall business needs. Using the ‘talent lifecycle’, they aid employees in setting goals, building their areas of expertise, and managing their careers. Diane referred to talent managers as ‘embedded correspondents’ and described the ‘amazing harmony’ between HR and talent managers as they work as a team to transcend the potential of a ‘silo’ mentality that could hinder integration.

Leadership at IBM

In 2003, IBM was named the best company for leadership development by *Chief Executive Magazine*. Based on data from 240 corporations, the magazine’s leadership survey reported factors that build great leaders. This accolade represents IBM’s commitment to finding the right people and providing them with the right experiences to foster leadership excellence.

Leadership development at IBM encompasses succession planning, executive development, and education, and is guided by three principles:

- 1) Most development happens on the job.
- 2) Leaders develop leaders.
- 3) Leadership is best developed experientially and in natural work groups.

The current leadership pool consists of 27,000 managers, 4,600 executives, a senior leadership team of 300 executives, and a worldwide management council.

Diane outlined four “game changers” that underpin leadership development at IBM:

- 1) Creation of senior leadership team
- 2) Pervasive use of leadership competencies
- 3) Commitment to development
- 4) Re-engineering of succession planning.

- **Senior Leadership Team**

The senior leadership team consists of 300 representatives of IBM’s best leaders—70 of whom are from countries other than the U.S.—strategically placed in critical positions to act as agents of change. Since the team was formally defined in 1995, 58 original members remain. The senior leadership team averages 20 years of service and has representation of 17 percent women and 15 percent minorities.

Twice a year, team members’ competencies are assessed in order to determine whether they are, in fact, IBM’s ‘best and brightest’. Diane explained that no member of the senior team is invincible—members must continually demonstrate excellence in order to make the team during each assessment period.



- **Leadership Competencies**

In 1996, IBM conducted a rigorous objective study that was used to develop and deploy 11 unique leadership competencies. These competencies were updated in 1999 to reflect current leadership standards and needs.

- **Commitment to Development**

According to Donna, Chairman and Chief Executive Officer Sam Palmisano has called for a renewal of leadership at IBM. Leadership development includes fine-tuning and strengthening senior executives' competencies and identifying and shaping high potential ('hipo') talent for critical positions.

As an example of the development process, senior leaders act as consultants in identifying high potential candidates from among IBM's worldwide top performers. Furthermore, executive leaders act as teachers to 'hipos' as they learn on the job and attempt to develop the IBM competencies. Also, high potential and executive leaders attend orientation and other workshops on a consistent basis.

- **Re-Engineering of Succession Plan**

In recent years, IBM overhauled its executive development program, shifting from a position-based succession plan to a person-based system. High potential talent is identified from the overall employee pool at IBM and selected for development programs. IBM aims for very personal developmental experiences, using individual feedback sessions on managerial styles and potential 'derailers,' in addition to consultations on the development of key competencies.

IBM as the Strategic Leader in Resource Management

IBM's global resource management strategy is inextricably linked to external environment trends and to the On Demand Workplace strategy. Current marketplace dynamics are driving

workforce and other resource shifts, as well as an awareness and response to the proliferation of low-cost service providers, and to the globalization of the labor supply.

Garrett stated that IBM’s resourcing strategy reflects and interweaves the four essential Demand attributes: *variable, focused, responsive, and resilient*. Although global resourcing will drive IBM’s cost competitiveness, it is essential that the strategy continually considers how global resourcing flexibly adapts (*variable*) to global trends and competition; how it is *responsive* in sensing and responding to fluctuations in global labor pool supply and demand, customer needs, or unexpected moves by competition; how it aligns with IBM’s overall *focus* as an industry leader and with its core competencies; and how it is *resilient* in response to environmental threats and risks.

Strategic resource management at IBM is a more complex response to its environment than offshoring. Garrett explained that IBM’s global resourcing is an efficient, effective, and tactful response to a “cost point.” The overall strategy considers how to:

- Minimize resource displacement by retraining and redeploying employees
- Support IBM’s annual growth plans
- Build “hot” skills
- Design structures and policies that facilitate communication and locate and respond to opportunities.

Garrett outlined four key things to think about:

- 1) Tracking and assessing opportunities using global resourcing *metrics*.
- 2) Creating an efficient resourcing *management structure and system*.
- 3) Global resourcing *issue resolution*.
- 4) Global resourcing *communications and government relations plan* (locating opportunities, assessing political issues).



The coordination of a diverse, global talent constituency can present potentially disruptive and strategy-undermining issues. Global resourcing on a large-scale can include loss of communication richness, loss of collaboration, difficulties related to cultural differences, coordination breakdown, and loss of “teamness.” IBM employs collaborative technologies and uses its sophisticated service architecture as “constructive responses” to mitigate these potential risks.

As Garrett explained, global resourcing is not a simple value proposition: it involves a very complex execution that requires strong business and human resources leadership. Global optimization is a continuous process that considers not just protecting IBM from the commoditization of skills, but also developing “hot skills” that drive higher profit margins and minimize the displacement of employees with outdated skills.

In sum, he explained, workforce optimization is not a new concept at IBM. Instead, it has been, and continues to be, an ongoing, evolving response to marketplace drivers and competitive forces.

HR Business Transformation

Barbara Brickmeier

Director, Vendor Relations

Bill Matson

General Manager, HR Business Transformation Outsourcing

Barbara Brickmeier and Bill Matson provided an overview of the HR Business Transformation, which included descriptions of internal changes aimed at enhancing the delivery of employee services and of IBM's leap into BTO (Business Transformation Outsourcing). The latter is largely a function of the right mix of the human resources expertise and world-class technology of IBM.

The Internal HR Transformation

The role of IBM's human resources function is evolving, with an increasing focus on business strategy and utilization of human capital to create a competitive advantage. The goal of transforming the human resources service delivery model is to segment work in such a way that HR professionals can focus on strategic issues by outsourcing process/transactional support to experts.

A strong overarching strategy and policies and processes that represent a solid human resources infrastructure guide the delivery model. Furthermore, as Barbara explained, a critical success factor in providing a global service model is the utilization of technology.

In order to meet the global mission for human resources service delivery, what does IBM want to accomplish?

- Enable its human resources organization to focus on core activities.
- Reduce the total expense of critical human resource delivery.



- Centralize and optimize services, utilizing centers of competency, creating end-to-end accountability in one organization.
- Improve customer (i.e., managers, employees, retirees) experience, including consistency of information delivered and technology provided.
- Advance its ability for rapid deployment of human resources programs within and across geographies.
- Strive for common platforms across geographic locations.

How does IBM transform its way of doing business?

The key to the transformation of global practices is leveraging technology to simplify and standardize end-to-end processes. The model minimizes redundant practices and processes and facilitates employee self-service, both of which dramatically reduce delivery costs.

Likewise, the standardization of worldwide practices maximizes scale efficiencies.

The global construct: IBM's employee service center

IBM aims for centralized service delivery and is working to create one platform, a reduction from its four regional platforms; a centralized model must consider issues related to time zones and language differences.

Ideally, IBM's service center includes the following:

- One-stop access point for all employee services. The goal is to have one model combining human resources, payroll, and disbursements in one organization.
- Easy access through central employee web portal and toll-free telephone numbers.
- Coverage for broad range of programs.
- Emphasis on self-service applications.

In the U.S., Fidelity Employer Services Company will handle IBM's health care administration, career services, and pension administration. Subsequent outsourcing outside the U.S. will be done with IBM's own Business Transformation Outsourcing Team and will leverage the support also provided globally to Procter & Gamble. By outsourcing these processes, the IBM human resources team can focus on core competencies and building skills that are aligned with providing higher value-added strategy and consulting services.

Role segmentation as a critical facet of IBM's strategy

The transformation of Human Resources begins by segmenting roles to allow IBM to deploy the best human resources service delivery model. The *current* employee role breakdown typical in any organization includes 55 percent who are in administration, 30 percent who are subject matter experts, and 15 percent who are in strategy and policy.

The *future* breakdown in a typical organization will include 30 percent in administration, 20 percent subject matter experts, 25 percent dedicated to automation and self-service support, 15 percent in strategy and policy, and 10 percent serving as consultants to IBM customer organizations. Those employees who are in administration and are subject matter experts represent the 50 percent who provide shared services.

By automating processes, IBM can reduce headcount, resulting in 20-to-40 percent operational savings. The future state of role segmentation also reflects the human resource team's goal to provide higher value-added services such as business strategy support and consulting.

How is information delivered to employees?

Barbara described IBM's shared service and self-service models, both of which allow the human resources team to organize how information is delivered to employees, thus improving service levels and reducing costs.



As Barbara explained, self-service tools are a key part of IBM's technology solution, allowing employees access to information when and where it is needed. Using the IBM Compensation Planning cycle in the U.S. as an example, of the 160,000 transactions, 90 percent can be handled directly by managers through web-based self-service tools (described as Tier 0). Of the 10 percent of transactions that need additional service, 90 percent will be handled by contact centers (Tier 1), which are staffed by HR administrative specialists. The remaining 1,600 transactions are passed on to compensation professionals (Tier 2). By segmenting roles appropriately and by designing an efficient service model, employees receive information that is timely and relevant to their needs, and IBM achieves significant cost savings.

HR Business Transformation Outsourcing

Bill Matson, General Manager of HR Business Transformation Outsourcing, leads the services team in designing and delivering human resources solutions for companies worldwide. In September 2003, for example, IBM announced a 10-year business transformation outsourcing (BTO) contract with global consumer packaged goods giant, Proctor & Gamble (P&G) valued at over \$400 million.

Under the outsourcing contract, IBM will provide P&G employee services such as payroll processing, benefits administration, and human resources data management. Also, IBM will provide application development and management of P&G's HR systems.

IBM's HR outsourcing arm is the product of leveraging resources and competencies, such as IBM's own internal processes, its expertise in technology, and over 3,500 HR Consultants that joined the company as part of the PricewaterhouseCoopers Consulting acquisition. IBM's global presence and the economies of scale created by standardizing practices enables IBM to offer services on demand, converting a client's human resources function into a dynamic and responsive organization. For example, P&G will pay only for services demanded based on

when and where it uses them (P&G has a presence in over 80 countries), rather than maintaining a less efficient fixed cost structure. A strong governance model is critical to effective IBM teamwork as the outsourcing group provides client solutions. Furthermore, role clarity facilitates effective oversight of projects. IBM considers governance at three levels:

1. Strategic level—develops and agrees on forward-looking strategies and sets direction for services management team.
2. Management level—implements strategic direction and oversees project performance.
3. Operational level—provides consistent, high-quality service delivery in daily interactions.

How does IBM ensure service delivery success?

- Use of global benchmarks when developing the solution.
 - a. Ratios of support staff to core human resources employees.
 - b. Ratio of support staff to total employees in geographical area.
 - c. Targeted savings.
 - d. Clear and consistent definition of core versus non-core activities.
- Responsive to local needs but stay true to the global principles.
- Rightly constructed contract base.
- Clearly defined service levels that specify targeted improvement over time.
- Crisp and well-developed knowledge transfer plan.
- Emphasis on process transformation.
- Aggressive but achievable timeframes.
- Change management techniques with focus on employee, individual business unit, and country concerns.

IBM’s new model can deliver customers a reduction of 20-to-50 percent in HR administrative costs. The cost reduction is a product of (1) an improvement in technology, resulting in higher levels of employee self-service and better access to information, (2) streamlined processes, and (3) labor arbitrage.



The Future of Human Resources Management at IBM

The changing pace of human resources at IBM is a migration toward an “HR On Demand” model, which allows flexible, real-time service that is also cost-effective. IBM will contemplate what value-added processes are best provided in-house and those that are better managed through vendor expertise.

Internally, IBM Human Resources intends to deliver the most value by strategically developing a competitive advantage in core business processes and by choosing and managing top-notch vendor relationships. As human resource consultants, Human Resources Transformation Outsourcing will offer on-demand services using technological sophistication and business process savvy.

Driving Performance Through Learning

Edward (Ted) J. Hoff, Vice President, Learning

Nancy DeViney, General Manager, IBM Learning Solutions

According to Ted Hoff, Vice President for Learning, and Nancy DeViney, General Manager of IBM Learning Solutions, *learning* at IBM drives value at the individual, team, and organizational level to create a dynamic competitive advantage.

Why is Learning Important?

Companies, clients, and communities are ascribing to forward-thinking approaches and gravitating toward solutions that are current with today's innovations. Human capital is quickly replacing physical capital, and, as such, learning is becoming a competitive differentiator for corporations on a variety of levels. In particular, learning ensures that employees continue not only to bolster their skill sets, but also that employees remain as dynamic and current in their solutions as the customers are in their demands and visions. Consequently, maintaining relevance and leadership in any field requires ongoing and aggressive employee training. Stagnated skill levels that address today's issues will not sufficiently address tomorrow's problems—problems that beg for deeper knowledge and more creative solutions. In short, human talent that is current with the latest innovations and changes in industry is a competitive advantage that cannot be ignored.

For these reasons, learning is a far cry from executive rhetoric at IBM—learning is a way of life that is deeply engrained in IBM culture. IBM recognizes that learning strengthens partners, suppliers, and customers. IBM believes in consistent and meaningful education that is aimed at solidifying and maintaining superior performance from its employees. Similarly, IBM also believes that securing the best talent is not enough to ensure continued leadership. IBM's leadership is in large part driven through an emphasis on constant development hinging on the



latest advancements in the business. This emphasis then serves to ensure that IBM remains innovative in all facets of its business, from managing its employees to delivering effective solutions.

IBM's Learning Strategy

IBM has designed a system that caters to team/group and organizational-level learning. The thought process behind this notion is simple: organizing a team around a business need provides a perfect platform for the exchange of innovative ideas that promote business growth and effective learning. By aligning learning with IBM's business and operational priorities, IBM can differentiate itself as a forward-thinking employer and solution provider. Furthermore, by positioning learning to advance its priorities, IBM can be confident that its corporate values are evident in all facets of its business.

IBM's learning strategy can be divided into three areas:

- *Business Drivers and Strategic Learning Planning*—IBM's framework for learning and overall business approach. For IBM, leadership breaks down into strategy and execution.
- *Advanced Learning, Design, Context and Operationalism*—IBM's strategy map for developing a learning plan. It hinges on the idea that there must be accountability at all levels for learning.
- *Pervasive Learning Applications*—Focuses on building partnerships and fostering relationships with internal business units. IBM believes that there must be a solid connection between the business units and HR for learning to be effective.

IBM is constantly evolving its learning strategy to meet the demanding needs of the environment in which it operates. Succinctly, IBM follows five steps for translating a new learning strategy into profit: (1) understand and validate business priorities; (2) translate those business priorities into a strategy map; (3) identify business measures; (4) identify and prioritize learning strategies; (5) develop and implement a strategic learning plan.

To IBM, investing in its learning strategy means developing and deploying learning solutions, devising and executing reporting and measurement plans, and creating and delivering a communications plan. These steps ensure that learning is an ever-present business priority that effectively addresses the needs of a dynamic customer base.

Learning's Impact on the Way IBM Does Business

Learning is central to IBM's business initiative of enabling companies to be "On Demand." By "On Demand," IBM means defining business rules and mapping them to processes that can respond dynamically to market forces—whether that is customer needs, supply issues, competitive pressure, etc. In short, the "On Demand" environment is end-to-end functionality coupled with e-business reality to achieve competitive differentiation. And the only way to enable the "On Demand" transformation on both a large internal and external scale is to have strong learning leadership and effective learning governance within IBM.

Proof of IBM's strong learning leadership is in its internationally recognized learning framework tools and methodologies (e.g., Signature Sales Method). Some of the key success factors for IBM's leadership in learning are its business units' alignment with HR, the accountability and discipline associated with learning, and its investment in learning planning and commitments.



Effective learning governance at IBM is carried out through its Learning Management Council and its Learning Investment Council. The primary goal of these councils is to integrate learning and create an innovative platform from which tomorrow's learning strategies can be built. Both councils are also intimately involved in IBM's content portfolios, which regulate and communicate management development, expertise management, financial and sales measurements, and employee development.

The Future of Learning at IBM

IBM understands how the sheer power of learning can significantly transform organizations at all levels. As such, IBM wants to fortify its learning strategy on both an individual and enterprise level.

As technology improves and the pace of business increases, the classroom as a learning environment has been rendered inefficient and less effective. Instead, blended learning approaches (e.g., information-individual-based learning), e-learning (e.g., find or create compelling digitized learning content), and national and global collaboration using breakthrough technology, are the learning focus. IBM has begun to implement multiple modes of learning because the company recognizes that one medium for learning is not sufficient. The learning process must, at some level, be personalized to individual learning styles if there is to be a noticeable return on investment.

In the future, IBM wants to select the best learning tools, establish accountability at every level, create a convergence of knowledge management, and implement a reliable and scalable learning infrastructure. This objective, however, will only come as organizational and cultural issues associated with learning are adequately addressed.

The future market environment, globalization, next-generation learning trends, on demand, and the like, are among the many factors that will shape the future of learning at IBM. People are living longer and retiring later. There is a palpable increase in any employee's ability to "get connected" and get information. This "anywhere, anytime" access will have to be harnessed to ensure effective knowledge management. In the end, however, the bottom line will still exist: learning is a competitive differentiator.



Workforce Diversity: A Competitive Differentiator

Ted Childs

Vice President, Global Workforce Diversity

Steven Jarrett

Vice President, Human Resources, IBM Technology Group

“None of us is as strong as all of us!”

This is IBM’s diversity brand. It is based on the notion that securing a workforce of diverse perspectives is an invaluable competitive advantage. Ted Childs, IBM’s Vice President of Global Workforce Diversity, sees workplace diversity as a necessary bridge between the workplace and the marketplace. Or, more clearly, when an organization resembles its customers, the organization can better understand and meet its customers’ demands. This belief, that victory with the customer begins with winning in the workplace, is a cornerstone of IBM’s heritage of leadership and legacy of inclusion in diversity practices.

The year 2003 marked the 50th anniversary of the first IBM equal opportunity policy letter. Written on September 21, 1953 by IBM president and chairman, Tom Watson, Jr., the letter is an ageless statement of what IBM stands for at its core. The principles of fairness and equal opportunity outlined in the letter remain the foundation of IBM’s diversity policies today. The equal opportunity policy letter reaffirms IBM’s early diversity heritage and demonstrates that IBM can “walk the walk.”

IBM Yesterday

IBM’s legacy of inclusion in diversity practices can be quantitatively substantiated at every turn. The following facts are just a few examples.

- IBM hired its first employee with a disability in 1914—76 years before the Americans with Disabilities Act.
- IBM was the first company to support the United Negro College Fund in 1944.
- IBM President Thomas J. Watson Jr. issues Policy Letter No. 4, which states that IBM will hire people based on their ability, regardless of race, color or creed—one year before the 1954 Supreme Court decision *Brown v. the Board of Education* and 11 years before the Civil Rights Act of 1964.

While IBM’s heritage of leadership in workforce diversity is impressive, IBM’s foremost goal remains the same: to create a framework of diversity that is compelling to the next generation. In other words, by appealing to the children of the world and, therefore, tomorrow’s workforce, IBM seeks to convey the logic and absolute necessity of having a diverse workplace.

IBM Today

To provide equal opportunity and affirmative action for applicants and employees, IBM contributes to and carries out programs on behalf of women, minorities, people with disabilities, Vietnam-era veterans, Special Disabled Veterans and other covered veterans. This includes outreach as well as human resource programs that ensure equity in compensation and opportunity for growth and development. IBM’s efforts to secure a dynamic and highly effective workplace are organized on three platforms: *Equal Opportunity*, *Affirmative Action*, and *Work/Life Balance*.

- *Equal Opportunity* means opening doors of every level of the company. IBM’s work environment must be free from any harassment based on sex, sexual orientation, race, national origin, ethnicity, religion, age, disability or veteran status.



- *Affirmative Action* includes taking the steps to ensure that everyone is allowed to compete on an equal basis. It provides practical assistance to people in groups historically excluded from participating in the economic system. IBM's intent is not to provide advantage, but to eliminate disadvantage.
- *Work/Life Balance* programs help employees to balance the needs of the office and home. They are designed to allow employees to be productive and serve customers at the same time, while also fulfilling the responsibilities of their personal lives.

IBM continues to encourage the formation of diversity network councils and groups that cross all geographic borders and have strategic impact on its business. The councils and groups are important tools for helping people to work together effectively and demonstrate that they can address sensitive, personal, and often passionate issues—issues that can help IBM recruit and retain talent, and better connect IBM to a changing customer set. Through *Executive Task Forces*, the *Diversity Council*, *Diversity Networking Events*, and *Internal Diversity Awards*, IBM creates an atmosphere where diversity initiatives have global implications.

- IBM has established eight *Executive Task Forces*—Asian, Black, Hispanic, Gay/Lesbian/Bisexual/Transgender, Men, Native American, People with Disabilities, and Women—to underscore its commitment to an inclusive work environment and to increase IBM's success in the marketplace by focusing on the various constituencies as customers. Task forces are chaired and staffed by executives from that particular constituency and look at IBM in the context of the following questions:
 - What is required for your group to feel welcomed and valued at IBM?
 - What can IBM, in partnership with your group, do to maximize your productivity?
 - And, what courses of action can IBM take to influence the buying decisions of your group?

- The *Diversity Council* ensures that IBM visibly encourages and values the contributions and differences of employees from various backgrounds. Its key objectives are to heighten employee awareness, increase management awareness, and encourage the effective use of IBM's diverse workforce.
- IBM runs formal *Diversity Networking Events* that are open to all employees. These events give employees the opportunity to meet other colleagues face-to-face, and enable them to learn more about current diversity initiatives.
- IBM has *Internal Diversity Awards* aimed at recognizing and celebrating people whose actions encapsulate the company's diversity principles. The awards help to raise awareness of the Diversity Program and encourage diversity throughout IBM.

IBMTomorrow

The demographics of today's workforce are dynamic. In order to maintain global marketplace leadership, IBM aims to continue mirroring both national and international demographic changes and shifts in its own workplace. If successful, IBM has an excellent chance of securing a number of awards—including the prestigious Catalyst Award recognizing initiatives to help women advance in the workplace—which will not only become an important value fact, but more significantly, further validate IBM's leadership in workplace diversity as well as emphasize how diversity is a true competitive advantage.

As is the case with all great leaders, IBM has identified areas for improvement. Steve Jarrett, Vice President of Human Resources in the IBM Technology Group, has devised and implemented a three-pronged strategy to improve the diversity within his business unit. First, diversity objectives will have to be documented for each Technology Group executive in the "Win" section of his/her business objectives/commitment statement. Second, each Technology Group



executive will receive a mid-year diversity assessment that identifies gaps and areas for improvement. And third, each Technology Group executive will have to demonstrate, on an annual basis, what actions his/her unit took to enhance diversity.

Other areas where IBM is working to improve include getting the gay and disabled communities on par with the gender and race communities, resolving the potential conflict between part-time flexibility and pay for performance, and securing more diversity success stories, particularly in IBM's product line.

Outside of these specific imperatives, IBM will continue to see the effective management of workforce diversity as an important strategic objective. As a result, IBM will continue to expect every manager to abide by the diversity policies and uphold the company's commitment to workforce diversity. In short, IBM's future diversity initiatives and change efforts will closely align with Ted Childs' sentiment: "IBM will stay true to the vision of what can be."

Lessons Learned at IBM

Jean Halloran

Senior Vice President, Human Resources, Agilent Technologies

Stephen Sheehan

Vice President, Human Resources, Thermo Electron Devices

Tim Hall

Professor, Boston University

Jean Halloran of Agilent Technologies and Steve Sheehan of Thermo Electron Devices led the HRPI member discussion related to major takeaways from the IBM briefing, areas of the IBM strategy and business plan that might be applied at member companies, and potential challenges that IBM may encounter as it moves to an On Demand corporate and HR model. Tim Hall of Boston University served as moderator of the discussion.

General Observations and Lessons Learned

Jean and Steve began by citing key observations from the prior day's meeting. Jean identified three "favorite objects" from among the "smorgasbord" of IBM practices: (1) IBM's Worldjam, (2) Diane Gherson's description of IBM's Value Proposition, and (3) Ted Childs's comment that "we should not bend to what has been; we should stay true to the vision of what can be."

Steve favorably highlighted IBM's assembly of a talented HR cast, and the ostensible alignment between the goals of the team and IBM's corporate business model. Although Steve was impressed with the expressed discipline of IBM's employees and the overall HR strategy, he was concerned with facets of its implementation. For example, although Steve was very impressed with IBM's focus on finding and developing the "top 300," he questioned the ability of the CEO to meet with every member of the senior leadership team prior to admittance.



Steve was also impressed with the evolution of the intranet to a strategic tool. With respect to IBM's Pay-for-Performance, Steve commented that the "cluster totem" described by Diane Gherson was consistent with the underlying philosophy that IBM's best performers should be highly compensated. However, he wondered about potential performance measurement challenges related to the disentanglement of individual from group level performance.

For example, Steve asked, what if the performance of individuals who are categorized in the bottom 20th percentile is impacted by team performance? More specifically, poor performance relative to others may reflect an individual's emphasis on teamwork instead of individual-level outcomes. Steve also noted an interest in understanding IBM's "funding formula" in terms of how bonus funds are generated and allocated among business units and then distributed among individuals within each unit.

Steve believed that IBM has an excellent approach both to emphasizing learning as a "game changer" and in appropriating a substantial budget toward implementing learning objectives. Like Jean, Steve believed that Ted Childs presented a very compelling argument for leveraging diversity as a competitive advantage.

Jean then further elaborated on themes and observations. She agreed with Steve's assessment of the intranet as a competitive advantage, and with the "stochastic shock" that may result from delegating responsibility for measuring performance to business unit managers. She further added that IBM has been quite "brave" in its approach to health care.

She concluded by identifying three themes that were pervasive across IBM's presentations: (1) IBM's consistent use of metrics, (2) a business line focus, and (3) each of the presentations underscored not only each of the group's tasks and goals, but also how the group's purpose is aligned with broader, overall HR goals and company objectives.

Among IBM's current practices and business ideas, which of the ideas could be implemented at your respective companies (Agilent Technologies and Thermo Electron Devices)?

Steve perceived IBM's intranet strategy as a viable best practices opportunity for Thermo Electron Devices. Jean viewed IBM's overhaul of its health benefits plan as a potential model for Agilent Technologies. She conveyed a particularly optimistic and excited tone about the possibility of implementing a program similar to IBM's Jams. Finally, Jean believed that IBM's performance distribution, although similar to Agilent's ranking system, might have a superior structure.

Were any of IBM's practices of concern to you, either in their usefulness or viability at IBM or in their applicability to other settings?

Steve perceived IBM to be idealistic related to the staffing of the senior leadership team. Jean expressed concern about IBM's current human resources strategy to utilize internal process improvements as a competitive advantage in outsourcing. For example, she expressed concern that IBM may be moving too quickly to market newly derived internal efficiencies to IBM's customers.

HRPI Member Open Forum

HRPI members dialogued about positive changes made at both IBM's corporate and human resources levels and also identified potentially challenging facets of their strategies and implementation. Several issues included in the discussion were IBM's benefits plan, corporate strategies aimed at improving business unit integration, the integration of recently acquired PricewaterhouseCoopers Consulting (PwC), and the pay-for-performance philosophy and accompanying system.



IBM's compensation advantage has been in its benefit plan rather than its overall level of pay for high performers. Employee candidates are attracted to IBM's commitment to diversity, its health benefits, and its "family-friendly" work policies as opposed to the combination of its salary and bonus structures. HRPI members expressed the opinion that IBM has made significant improvements related to structuring a salary and bonus system that is attractive relative to other leading IT companies.

Members also conveyed their belief that, given IBM's history of cultural fragmentation, the corporation has vastly improved its level of overall integration and cohesiveness. One member noted IBM's current challenge related to the recent acquisition of PwC, which had a different structure and is believed to have a very different culture from IBM.

IBM's second generation pay-for-performance system was the subject of much of the dialogue among HRPI members. Although members applauded IBM's efforts to build a system capable of rewarding excellence at the individual and group levels, they brought attention to several challenging areas related to the rating system, the discernment between individual and group efforts, performance measurement, and employee motivation.

Several questions were on the minds of HRPI members as they assessed IBM's pay-for-performance system:

- How can IBM create standard metrics—relatively free from subjectivity—that will adequately distinguish among levels of performance?
- How should *relative* individual performance be measured?
- How can IBM motivate poor performers to improve?
- How can IBM drive employees to be both exceptional individual contributors and excellent team players?
- What discretion will managers have to distinguish performance within each range?

Some members expressed skepticism about IBM's ability to create metrics that eliminate business unit managerial subjectivity and to communicate the metrics in such a way that employees understand precisely what results and behaviors are distinct among different ratings. One critical success factor for IBM is in effectively training managers to conduct ratings within their respective groups. The underlying logic is that managers possess the most accurate knowledge of their employees as well as the ability to distinguish among individual performance. Several members, however, asserted that delegating evaluations to managers was fraught with problems related to subjectivity and managerial inexperience in rating employee performance.

A related issue, also discussed by members, is the difficulty of determining *relative*, rather than *absolute*, performance. Members were skeptical of managers' ability to communicate to employees how and why they are rated. Will employees be rated according to the quality of their output, or to the process by which they produced it? To be more specific, one member provided an example related to individuals who work 10-12 hour days and can be seen down the hallways late into evenings. Should these employees be better compensated than the employee who produces comparable output but only works an eight-hour day?

In response to HRPI member concerns, Steve Jarrett stated that managers will be rigorously trained by Human Resources according to specific guidelines and rules that are aimed to minimize subjectivity in assessment. Furthermore, he explained, the human resources team believes that managers welcome being held accountable for those who work on their teams, and will, therefore, be conscientious about adhering to the overall guidelines.

One member asked how the system is designed to motivate "bottom" performers. He asserted that poor performance is generally related to a lack of fit between job requirements and an individual's skill set, the relationship between the individual and his or her supervisor, or a sense of disconnectedness between the individual and his or her team. According to the member, these reasons contrast the system's underlying assumption that employees are motivated by ratings or the monetary compensation that accompanies a rating.



Another member noted that less experienced employees will generally need time to climb the learning curve within a role, and are, therefore, at a disadvantage within the rating system, given its emphasis on results rather than learning. An additional question asked how work-life balance differentiators can be created.

In general, the discussion was lively, bolstered by the IBM human resources team's candor and level of strategic detail they offered the prior day.

Roundtable Discussion

HRPI Members

During the Roundtable Discussion, members discussed salient issues their companies are facing, including employee morale as the economy improves, budgets for salary increases, corporate governance committees, health care plans and costs, and stock options and restricted stock.

Boosting Employee Morale

As indicators suggest an economic upturn, how are member organizations addressing morale issues? Some members indicated that their respective organizations' financial performance is improving; others were optimistic that an end of the recession is in sight.

Collectively, members questioned how employee morale can be bolstered under uncertain conditions. Several members responded that today's climate offers an opportunity to re-engage their respective workforces. Successfully doing so requires, they agreed, sensitivity to employees' lingering doubts about economic recovery, prior layoffs, and candid, direct messages from senior management.

Anticipated Salary Increases

During the recession, member organizations cut back on funds allocated to employee reviews. A few companies were forced to eliminate employee raises entirely in 2003, and others only offered some of their employees raises. Now budgets are being reassessed. In general, members stated that their organizations gave roughly three to six percent raises to eligible employees.



Board HR Committee Issues

In response to actions taken on corporate governance issues by the SEC, Congress (e.g., Sarbanes-Oxley Act passed in 2002), institutional investors, and major stock exchanges, organizations nationwide are making sweeping changes related to their board of directors' programs and policies.

HRPI members briefly discussed their respective organizations' progress on issues such as hiring independent consultants, executive compensation programs, newly established guidelines, and compliance with regulations.

Health Care Costs and Programs

Managing escalating health care costs is a major challenge for member organizations. Several members stated their belief that shifting more costs to employees seems to be inevitable. Per-unit programs are becomingly increasing attractive to some member organizations. One member described how his company shifted health care eligibility requirements from 30 to 35 hours worked each week, thus excluding some employees from coverage. Another member questioned the potentially negative effect that raising eligibility requirements may have on labor union relations.

Members discussed how organizations are hoping employees will shift costs to their spouse's health plan and the impact that health care programs are having on dependent costs and retiree benefits. Several members explained the particularly detrimental effect that health care costs are having on organizations' ability to provide coverage for retirees. For example, at one member organization, retirees who were paying \$400 a month a few years ago are now paying \$1,000 a month. Many retirees are unable to afford the subsidy cost. Member organizations are hoping that retirees who cannot participate in the health plan will still opt in for their prescription plans.

One member organization has partnered with the Mayo Clinic to consult and educate employees who have medical questions and concerns. The mutual aim is to prevent costly, unnecessary doctor visits by supplying employees with health care information. The program is, in part, assessed by documenting utilization of the toll-free hotline that is available to employees.

Another member said that it behooves organizations to coalesce on a broader scale to affect health care legislation. He said organizations' policies that are creating more uninsured are simultaneously heightening the national political issue of health care. He believed that organizations should become involved in public policy as the issue continues to hurdle toward a national crisis. Other members agreed, and one noted the challenge and complexity of involvement in health care legislation as active participants include so many diverse players—including unions, small business, insurance companies, drug companies, health care providers, and legislators—with divergent interests.

Stock Options and Restricted Stock

Members exchanged information about their respective organizations' stock option plans and accounting methods. Most member organizations hope to offer options to employees at lower levels—both technical and managerial—in addition to senior management. To this point in time, however, most organizations have focused on offering options to incentivize high potential candidates across levels of their organizations.

Most organizations are following the status quo with respect to stock option expensing. However, member organizations are concerned with granting options until an adequate means of valuing them is established. Further, because of the uncertainty of option valuation, some organizations are reducing not only the number of shares but also the time to expiration.



A few member organizations mentioned their increasing use of restricted stock as a long-term employee incentive. They explained their perceptions of restricted stock as a motivating tool:

- Many employees do not understand stock options (e.g., that they have to take action in order to realize a gain);
- In contrast, employees have a better conception of the vesting period related to restricted stock;
- Unlike options, which can remain “under water” to expiration, restricted stock will always retain some intrinsic value;
- Employees may appreciate the perceived immediacy of restricted stock.