STRATEGIC HUMAN RESOURCE MANAGEMENT AT LUCENT

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This article describes the HR Management system in place at Lucent Technologies, Inc. Lucent's HR structure is organized around a client service model that focuses on the leaders in the major business units and the movement of as much of the HR infrastructure as possible to these business units. Key emphases include (1) HR operational excellence, (2) compensation and performance management that encourages employees to build a successful future with the firm, as well as to share in that success, and (3) building an operating style and culture that supports Lucent's mission and strategy. Key challenges for the future include (1) organizational renewal in a period of growth, (2) identifying and developing new HR competencies, (3) developing a unique HR structure to support the needs of HR at Bell Labs, and (4) effective labor relations in a rapidly changing industry.

Introduction

Lucent Technologies was spun-off from AT&T in 1996, representing one of the most successful initial public offerings in history. With a current market value approaching $117 billion and revenues of nearly $26 billion, Lucent conducts business in 94 countries with more than 130,000 employees. The company is one of the world's leading designers, developers, and manufacturers of communications systems, software, and products. Among its most significant intellectual assets is the prestigious Bell Labs, which is the foundation of Lucent's research and development efforts.

HR at Lucent

While Lucent is competing in the rapidly changing technology market, and has become a flexible and nimble "new" organization, it very much carries the legacy of its history with AT&T. Lucent is dedicated to breaking with that tradition with respect to how they manage human resources. In terms that appropriately reflect this industry, their goal is to "bend the light wave of the culture that they brought from their AT&T heritage". HR is taking a leadership role in managing this cultural change process. In the broadest terms, Lucent's goal is to shift from the old "entitlement" culture to a new culture that focuses on individual accountability and results. The demands and challenges of this organizational renewal effort are reflected in a workforce that is relatively senior and where the number of retirees exceeds the number of current employees. In contrast to AT&T, Lucent is very labor intensive with more than 40,000 employees under union contract.

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Within this context, Lucent HR is committed to the goal of "unleashing the power of Lucent people for competitive advantage and

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superior business results". To support that goal, Lucent is in the process of a major effort to restructure and refocus its HR function. The new HR function intends to be fast, focused on business needs, and flexible. Its personnel will achieve these goals by emphasizing both operational excellence *and* value creation, the latter reflecting a move away from an activity focus to a focus on results. Finally, HR is committed to raising the leadership profile of HR at Lucent with the belief that HR can provide value for its business partners and aggressively share that story outside the HR community.

This strategy begins with clear links to Lucent's 5 Simultaneous Equations: five *financial* (e.g., double return on assets from 5% to 10%, achieve double digit growth for revenue and operating income while maintaining BIC gross margins) and *growth* (above market growth rates in five specific business areas) goals. Lucent intends to drive this growth through the development of a *High Performance Operating Environment*, using the acronym GROWS to indicate the importance of a

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__G__lobal growth mindset;
a *__R__esults*, not activity focus;
__O__bsession with customers and about competitors;
an open, supportive, and driven *__W__orkplace* and;
an underlying, pervasive emphasis on *__S__peed*.

The new HR structure is organized around a client service model that focuses, as its preeminent clients, on the leaders in the major business units charged with achieving these financial and growth goals. A key feature of this strategy is the movement of as much of HR as possible to these business units. Key foci include the following:

- HR operational excellence, including a financial model that emphasizes shifting more costs from fixed to variable and direct—for example, shifting from a structure in 1996 where 90% of the expenses in HR were fixed to 1997 where 63% are assigned to business units as direct or variable costs and only 37% are fixed
- Acquisition, development, and retention of talent that creates value for shareholders
- Compensation and performance management that encourages employees to build a successful future as well as share in that success
- Building an operating style and culture that supports Lucent's mission and strategy

High Impact HR Policies at Lucent

Client Model-Business Partner Focus

Lucent's new HR structure is the foundation of the high profile role HR will play at Lucent. The model emphasizes client services at three levels of the organization: individual employee/retiree (nearly 300,000 in total), supervisors/coaches (33,000), and senior leaders (381). There is a delivery channel established for each of these clients that draws on separate HR policy and Centers of Excellence. At one level, Lucent is committed to operational excellence at the one-to-one interface. For example, Lucent reports that 90% of the clients using the employee services center have their problem handled on the first call. Business HR Services has moved from 115 days from job requisition to start date to less than 40 days. More than 85% of all clients using HR's business services report being "very satisfied" with HR; the goal is 90%.

The linchpin for value creation throughout Lucent, however, is the role of HR Business Partners in which HR leaders work directly with the senior business leaders to implement strategy. While the Business Partners, and indeed each of the three delivery channels, are measured against strict client satisfaction objectives, their ultimate goal is for the senior executives to say at the end of the year, "We were very successful and couldn't have done it without HR". The vision requires a strong commitment to the senior leadership that HR is working on *their* problems and that all HR initiatives are always focused on solutions for their clients. The details mean going to staff meetings, even when there is no discussion of HR issues, so HR representatives can better understand the business and contribute to business decisions beyond HR issues; or the creation of a team of 58 HR professionals (the *HR Accelerators*) whose job it is to find and eliminate (dismantle) HR policies and practices that no longer add value for Lucent's shareholders; or it means bringing in the marketing manager from Network Systems to address a video town meeting of the worldwide Lucent HR community. She described what is required to significantly grow her business and how HR can partner with her in this effort (better motivational programs for the sales force, new competencies based on future oriented thinking, and so on).

Competency Model for Business Partner Role

Lucent has also developed a new competency model to support the development of the Business Partner role in HR. The competencies were developed using internal reviews and external benchmarking sources and emphasize five areas that answer the question, "What are the knowledge, skills, and commitments that will enable the Business Partner to deliver upon their customer's (internal client) expectations"? These include:

- understanding the Lucent business, the Client's business, and HR business;
- customer focus;
- defining, managing, and implementing HR solutions to business problems by identifying, securing, and leveraging resources;
- managing in a changing, competitive environment; and
- personal impact.

These competencies are then to be integrated into an HR system of learning and development, staffing and selection, career development, and performance management. The initial integration is through individual assessment tools that form the basis of a customized career development plan. The Business Partner competency model will, over time, serve as a foundation for such models in other HR roles at Lucent.

Talent Acquisition

Talent acquisition is a high impact HR area for Lucent because the firm is looking to grow rapidly in selected markets often representing competencies outside their traditional strengths (domestic and voice telecommunications). While this remains a continuing challenge, Lucent's HR function is making progress, as a business partner, in being able to anticipate and respond quickly to the workforce planning implications of the client's business strategies. HR personnel have been able to incorporate workforce planning models at the strategy development stage in a way that allows them to get the right person, in the right place, and at the right time. For example, the HR function has developed a simple staffing model based upon benchmarked workforce productivity numbers (revenue per employee). Given revenue projections at the business level, using the revenue/employee estimates, HR can estimate reasonable headcount projects and skill mixes. This also allows them to avoid overstaffing and the subsequent downsizing required. The key challenge here is for the HR leader to develop the personal competencies to coordinate not only the technical analysis, but perhaps more importantly, to play the genuine leadership role necessary where HR and business problems interface.

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Creating a High Performance Culture

The challenges of overcoming an entitlement culture remain significant. Lucent points to examples in certain business units, such as Bell Labs, where concrete actions have been taken to modify the traditional culture. They point to executive assessment policies in the past that had been very egalitarian, where executives might have gotten very similar stock option grants in the past. This year, for the first time, out of 25 executives in one unit, 5 got no options and another 12 received 180% of the "average" distribution. Similarly, Lucent (and predecessors) had tolerated poor performers for significant periods of time. Now, under the new Performance Improvement Process, the lowest performing managers are required to improve or they are moved out of Bell Labs (to less demanding R&D work in Lucent) or are even terminated.

Compensation

Lucent's compensation system continues to evolve with the new demands on the company. The share of variable pay among lower level employees has been increased. Lucent has changed its pay system, which has historically been driven by a job evaluation based on the Hay system. For middle managers, variable pay represents about 16% of total compensation. Eight percent is based on Lucent corporate performance and operates like profit-sharing. The other 8% is based on unit and individual performance, where the unit performance determines the size of the pool and individual performance determines a manager's share of the pool. However, this is a considerable extension beyond the past standard of 350 grants and is growing. The company also provided every employee on a worldwide basis 100 options as "founders grants" when Lucent went public.

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In Network Systems, which before its reorganization was the largest of the business units, Lucent developed what is called a "policy deployment" plan for its bonus program. Managerial bonuses were based on three components: financial (60%), customer (20%), and people (20%). The people dimension of the plan was based on management by objective (MBO) thresholds involving the high performance culture initiative, diversity goals, and had 100% of employees with development plans. If the company did not meet its earnings per share goals, however, there would be no bonuses irrespective of performance on the other dimensions.

Challenges Facing HR at Lucent

Organizational Renewal in a Period of Growth

Many of Lucent's most pressing HR challenges revolve around supporting the need for organizational renewal and new competencies at a time when global markets demand very short cycle times. Business units are often required to start new "businesses" from scratch over very short time frames in order to respond to customer demands. The ability to "ramp up" this type of recruiting and hiring effort at a company that, until recently, had focused largely on downsizing is a significant challenge. More broadly, HR needs to support a larger renewal effort in all of the business units that focuses on significant hiring of "new blood" with the drive and future-oriented skills sets that Lucent's new strategy demands. But again, the key challenge is to get these competencies in a timely fashion so that human capital issues do not impede the successful implementation of the firm's strategy.

A related theme involving organizational renewal is the relationship between the firm's performance management and development processes. Lucent needs to develop new competencies among the existing workforce and has developed a clear strategy for achieving this goal. Senior leadership is adopting a vision of leadership that focuses on bringing the most out of people, while at the basic supervisory level managers need to do a much better job of coaching for development and change. Lucent also continues to work on the appropriate development policies. It is investing very significant resources in employee training, but is in the process of identifying the payoff from this investment in quantifiable terms. Finally, Lucent leadership understands they have some skills gaps, but see as one of their challenges, the need to create the competencies to understand the development implications of this gap, on the part of both HR and line managers.

HR Competencies

As far as Lucent's HR function has come in developing its new strategic role, there was recognition that the HR community also required additional "reinvention". It was observed that HR is still very good at cost control and transactional business, but not as competent at adding strategic value. This will require HR, which has traditionally been relatively isolated from the major business strategic decisions, to break with its historical behavior if it is to fulfill its role as business partner. In fact, as the concept of service excellence becomes more critical throughout the firm, many more people will be engaged in HR work, so relationships between HR and staff role will need to become transparent. Lucent needs to ask: What kind of competencies will be required to facilitate this transition?

HR at Bell Labs

Bell Labs contains a unique group of employees, involving some unique HR challenges. Firstly, HR cannot "get in the way" or fulfill the role of gatekeeper or "policy police": It simply will not be tolerated in this environment. In addition, talent acquisition takes the form of "one of a kind" hires, rather than 100 engineers at a time. At the same time, HR has to develop a broader business acumen and managerial skills among a group of managers that has typically thought that technology was all that mattered. Finally, Bell Labs currently employs less than 5% of its workforce "offshore". This will change in the future as Lucent will be expected to establish a "Bell Lab presence" in many of its significant international markets.

Labor Relations

Given Lucent's labor intensity and increasing cost pressure to control all costs, Lucent is likely facing a major challenge with respect to labor relations. Lucent cannot afford to continue strategies of the past. The company is intent on changing its traditional relationship with its labor unions based on the fact that it is no longer a telecommunications service provider and competes against a different set of competitors.

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