

STRATEGIC HUMAN RESOURCE MANAGEMENT AT PRAXAIR

Barbara R. Harris, Mark A. Huselid, and Brian E. Becker

This article describes the human resource management system in place at Praxair. Key emphases of Praxair's HRM infrastructure include (1) competency development and performance-management processes and (2) team-based performance systems, which include four levels of measurement: company-wide, business-unit, cross-functional teams within business units, and special-initiative project teams. Key challenges for the future include (1) prioritization of choices in support of the firm's global growth initiatives, (2) employee development and new talent acquisition, (3) designing more effective methods to anticipate business needs and provide strong, proactive leadership, (4) accelerating leadership development and influencing adequate investment in education and development programs, and (5) designing and implementing effective methods to acquire new talent to support business strategies. © 1999 John Wiley & Sons, Inc.

Introduction

Praxair became an independent entity in 1992 when it was spun off from Union Carbide. The company produces, sells, and distributes atmospheric, process, and specialty gases; and high-performance surface coatings. Its primary products include oxygen, nitrogen, argon, helium, hydrogen, and carbon dioxide, which serve a broad range of industries.

In January 1996, Praxair's \$2.2 billion acquisition of CBI Industries contributed to its position as the largest industrial gases supplier in North and South America. The company is currently among the three largest industrial gases companies worldwide with 1997 sales of \$4.7 billion. Praxair has 25,000 employees worldwide and operates in 40 countries with approximately 50% of its sales coming from outside the United States.

Under CEO Bill Lichtenberger's leadership, the company has embraced a "best

performing" vision and created a strong performance culture driven by six values: customer focus, results, integrity, people excellence, safety and environmental excellence, and increasing shareholder wealth. Business performance in 1996 outperformed the S&P 500 index and the company's growth challenge was crystallized and communicated during this period. The challenge—15% increase in earnings per share—is expected to be accomplished through achievement of targeted sales growth in selected geographic and market segments, productivity improvements, and leadership and people development to increase global competitiveness.

Human Resources at Praxair

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confidence externally, it became more entrepreneurial and proactive. The work environment was driven by a demand for operational excellence. The organization was restructured and streamlined, and over 60% of the senior leaders are newly appointed, including the Vice President of HR in late 1994. In support of these changes, much of HR's time was focused on benefits and compensation administration, labor relations, and design and implementation of new policies and practices. The level of HR involvement in development, design, and implementation of culture and process changes, however, varied widely from region to region reflecting Praxair's independent regional business management approach. For example, in Brazil, many of the change-oriented activities were integrated with and/or led by HR, while in Europe and the United States, support was provided largely through delivery of training and management and through employee counseling. The major focus in Asia was on business development; therefore, the impact of the company's transition was limited.

Implementing this process of organization change required new values and behaviors to be consistent with Praxair's entrepreneurial climate. Emphasis was placed on creating a "sense of urgency" and personal accountability balanced with the need for team skills. The CEO's admonition, "Don't just push the rock, move the rock", echoed throughout the organization. The new operating requirements and expectations are emphasized and communicated worldwide. Multiple vehicles are utilized to deliver the message, including several global education programs on topics such as, safety, process, quality, and team-leadership skill-building.

Having exceeded its first five-year financial goals, the company adopted a new, three-year target of 15% annual increase in earnings per share to be achieved through 10% annual sales growth and 5% annual productivity improvement. Platforms for growth include acquisitions, expansion into selected high-growth geographic markets, development of new business, primarily through technology innovation, and continued optimization of the base business. Recognizing the need for a stronger market focus, the company launched a strategic marketing initiative that provided

a process to integrate marketing analysis and planning on a global basis. To support achievement of operational excellence and growth goals, the CEO and senior leadership of Praxair recognize the growing need for HR to play a stronger strategic partnership role.

Perhaps the most salient attribute of Praxair's HR function is that it is very thinly staffed, with a commensurate focus on cost-reduction throughout the firm. Even so, the firm appears to be making good progress in linking HR to the business and in developing the right products and procedures to allow the firm to do so (although the senior leadership would like to be able to deliver HR products more quickly). For example, Praxair managers want to accomplish so many things so quickly that they often get ahead of the ability of the HR infrastructure to support where they want to go. On a global basis, many of Praxair's HR professionals feel that they need 20% more resources devoted to the management and leadership of well-integrated HR/business activities in order to deliver them at the level of excellence expected.

Despite the resource concerns, human resources is shifting its focus from regional issues to a more global perspective. This requires a transition from an emphasis on transactional and local activities to a more strategic focus that addresses global issues and improved critical knowledge transfer. HR linkage at the strategic business level underlies its approach to three key business challenges: (1) to develop the next generation of Praxair leadership, (2) to accelerate employee development and new talent acquisition, and (3) to improve integration of business and HR activities/priorities that drive improvement in organization capabilities and support growth.

High-Impact HR Policies

Praxair's Vision for the Firm

Be the Best Performing Industrial Gases Company in the World as Determined by Our Customers, Employees, Shareholders, Suppliers, and the Communities in Which We Operate.

HR worked with management to create ownership and accountability for the "Best

Performance” vision. This has served to dramatically accelerate the decision-making process throughout the firm.

Communication and employee involvement in the development of the firm’s vision helped to speed its acceptance and implementation. It was discussed at the department level throughout the firm and put into actionable objectives that were clear and meaningful at each level of the business from truck drivers through senior management. An important part of this process, and one that helped to get everyone energized, was the development of specific goals at each level of the business (e.g., we want to grow sales 18%). As a result, there is currently a lot of “mental ownership” of the business by Praxair’s employees, a feeling that is reinforced by the firm’s performance-management and incentive-compensation systems (see below). This helps to create the feeling that “We’re all in this together”.

After the acquisition of CBI, the company’s vision was effectively used to drive design of communications and business integration activities. “Best performing” was also used to select employees and business practices among the two firms. Praxair believes that the completion of the integration activities within nine months represents a best-practice level of achievement.

Competency Development and Performance-Management Processes

As long as seven years ago, Praxair was probably world-class in linking employee competencies with performance management processes (which was basically a management by objective [MBO] program). The company received considerable attention in the popular press and was widely benchmarked by other firms. Praxair is now dismantling this program and replacing it with a process that focuses as much on how goals are achieved (capabilities, behaviors, and skills) as on what is achieved (results). This integrates the focus on values and behaviors with competencies and raises the bar on overall performance requirements. This shift in focus is in part driven by the reality that Praxair has fewer managers and supervisors; and therefore, clear processes, standards, and the ability to manage through systems has become more important.

Praxair’s recently introduced approach utilizes 30 essential global competencies. Covering entry-level exempt employees through senior management, this set of competencies has been endorsed by the top-level worldwide business team.

The company believes that competencies increase the company’s ability to communicate requirements for capabilities beyond the basic skills for a particular job. Competencies also are being used as a common global base for other HR systems and processes, including selection, performance management, education and development, and succession planning processes. These competencies were also utilized for job profiling and employee selection during the CBI integration process.

The firm now distinguishes between essential competencies and functional competencies in this process. Essential competencies are, by and large, consistent throughout Praxair on a worldwide basis. Functional competencies, in contrast, can differ by both job level and geographical location. Both essential and functional competencies are reflected in the performance development program and available to generate employee development plans. The firm has recognized that competency definitions can differ significantly by culture and that a heightened level of sensitivity is necessary when using in other cultures, competencies that were developed in the United States.

Team-Based Performance Systems

Praxair uses a team-based pay-for-performance system widely throughout the company. The process is linked closely with the firm’s incentive-compensation plans. The performance-based systems include management incentives, performance sharing for the broad-based employee population, and special recognition awards. The team-based aspect of the system uses primarily four levels of measurement. They include (1) company-wide, (2) business unit; (3) cross-functional teams within business units, and (4) special-initiative project teams. The system provides an opportunity for high performing teams to be nominated for the special recognition awards. Recognition and awards

historically relied heavily on a cash component; however, recently there has been greater use of stock options. The company evaluates frequently proposed new approaches from management and employees that could effectively leverage significant performance improvements. This approach is driven to a large extent by the CEO's desire to find creative ways to raise performance and contribution levels and to align employees and shareholder interest. Approximately 75% of Praxair employees worldwide participate in some kind of team or other incentive compensation plan.

The firm has also identified a number of challenges associated with team-based performance and compensation systems. For example: How can Praxair manage performance systems fairly and equitably when some employees are on multiple teams? How should employees be treated if they are reassigned to new teams or projects because they possess critical skills? How can the team's support personnel be incentivized, wherever they may be located in the firm, when they are not formally part of the team? In addition, the pay-for-performance system creates special challenges for the company when implemented in other cultures.

Challenges Facing HR at Praxair

Prioritization of Choices in Support of the Firm's Global Growth Initiatives

Praxair feels the need to move from a position of "operational excellence" in HR to a focus on creating organizational capabilities with clear priorities based on: global strategy implementation, prioritization of initiatives, continued clarification of leadership needs, and, subsequently, to be able to tie HR systems and processes to those requirements. Said differently, deployment of the "HR tools" to influence and lead change is vital; however, with continued pressure to meet or exceed financial objectives, the firm is in search of a balance between operational excellence (which the firm believes to be responsible for its past successes) and a "strategy innovation focus", which will be required to chart the course for the future.

Praxair believes it will continue to be

highly competitive in the areas of technology, quality, and service delivery but its human capital, especially the firm's leaders, represents the critical source of sustainable competitive advantage. Praxair recognizes the need to step up its leadership development efforts, particularly in view of its plans for continued growth worldwide. The firm also recognizes that the value of high-potential employees is substantial and increasing in the highly competitive environment in which the firm operates. In addition, in part due to recent emphasis on defining employee competencies, Praxair has a much better idea of the kinds of employees for which it is looking, but the concern is that these same trends are evident in other firms, thus "raising the ante" for high-potential talent. The essence of the problem seems to be: How can Praxair differentiate itself through the development of a work environment that attracts highly talented employees and accelerate the process used to prepare leaders for the future? Another key challenge is to create a global, versus regional, mindset among the company's leadership. Praxair views coaching and mentoring as important first steps but is concerned that enhancement of leadership capabilities in this area may not be achieved quickly enough.

A three-week-long Global Leaders Program was introduced in 1997 made up of high-potential and high-performing leaders selected by the Office of the Chairman. The firm also has stepped up the rate of transfers of not only U.S. managers to overseas posts, but also transfers into the United States from other countries.

Employee Development and New Talent Acquisition

The company's human resources represent a "leading investment". Management cannot wait for the firm's future growth to finance it. The human resources have to be in place, upfront, in order for the company to be successful and HR must be able to anticipate the needs in order to add value to the business.

Perhaps the biggest challenge for HR is to accelerate Praxair's cultural shift from a regionally based organization focused on operational excellence to a global enterprise with

the mindset and skills to profitably navigate a wide range of growth opportunities. This shift requires an ability not just to respond to management requirements, but to understand global economic and business trends so that HR works in partnership with management to resolve business issues and to take full advantage of emerging growth opportunities.

The Organization Challenge

HR must design more effective methods to anticipate business needs and provide strong, proactive leadership. Determining how to best mobilize HR's limited resources to stay in step with the fast-paced changes within the company and the external environment is critical. Finding the right balance between local or regional and global HR issues, appropriately deploying the resources, and designing tools to achieve broad-based impact can only be effective if appropriate consideration is given to local and regional issues and priorities.

With limited worldwide resources, the HR organization, like the rest of the company, must develop new approaches to support the global growth challenges. In many cases, it can model new competencies and behaviors for the organization—for example, operating with fewer cross-functional and cross-regional barriers and looking beyond regional differences to find ways to limit reinventing solutions used in other parts of the world (employing appropriate modifications). It also requires challenging conventional thinking and the creation of “centers of excellence” in HR on a worldwide basis. As the firm transitions from primarily U.S.-based to a truly global operation, Praxair is asking, what organizational structure will facilitate this process? Praxair's philosophy is that it needs a global mindset, not a centralized decision-making process.

The Leadership Challenge

For HR to exercise leadership in substantive ways beyond the traditional transactional activities, it must have the appropriate skills and competencies to understand the business and to design a solid HR and business strategy linkage. This process will include introducing methods to prioritize numerous business initiatives, identifying ways to accelerate leadership development, designing and implementing effective methods to acquire new talent to support business strategies, and influencing adequate investment in education and development programs.

HR leadership is also needed to improve the integration of business and HR in order to accelerate improvement in overall organization capability. HR must determine how to develop functional measurement tools and acquire and utilize business and strategic leadership skills. Development of the required skills is essential to moving beyond the fire-fighting mode.

As HR continues to work to realize its vision, *to become a world-class organization which adds value to the generation of operating results, supports the development of a desirable work environment, and accelerates achievement of global growth through its borderless mindset and leadership*, it must constantly address its operating reality. In that reality, HR must make the business case everyday to get resources allocated to implement many of the key HR tools and processes. Although business leaders agree with many of the needs identified, balancing the requirement for delivery of operating results near-term with the appropriate level of investment in development of human assets for the long-term continues to be one of the more difficult issues to solve within the company.

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BARBARA R. HARRIS is Praxair's Vice President, Human Resources, where she has responsibility for worldwide HR. Her professional experience includes Corporate Vice President, Human Resources for Applied Power, Inc.; and Okidata. She also held numerous senior HR positions during 14 years with General Electric. While with GE she completed the General Management Program and is a graduate of their HR Management Training Program. Prior to beginning her Corporate career, Harris also worked with nonprofit organizations focusing on increasing employment and educational opportunities for minorities with OIC and Yale University's Upward Bound Program. A native of North Carolina, she earned a Bachelor of Arts degree in Sociology and Psychology at Fayetteville State University, Fayetteville, North Carolina (USA).

MARK A. HUSELID is an Associate Professor in the School of Management and Labor Relations (SMLR) at Rutgers University. He holds a Ph.D. in Human Resource Management, an M.A. in Industrial and Organizational Psychology, and an M.B.A. His current research and consulting activities focus on measuring and evaluating the impact of human resource management systems on firm performance. He has published widely on these topics and currently serves on the editorial board of five major academic journals. The recipient of numerous awards for his research, Huselid is on the Board of Directors of the *SHRM Foundation* and is a member of the Executive Committee of the Human Resource Management Division of the Academy of Management.

BRIAN E. BECKER (Ph.D., University of Wisconsin–Madison) is Professor of Human Resources, and Chairman of the Department of Organization and Human Resources, in the School of Management at the State University of New York at Buffalo. Professor Becker has published widely on the financial effects of employment systems, in both union and non-union organizations. His current research and consulting interests focus on the relationship between human resources systems, strategy implementation, and firm performance.
