

STRATEGIC HUMAN RESOURCE MANAGEMENT AT HERMAN MILLER

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This article describes the Human Resource Management system in place at Herman Miller, Inc. (HMI). HMI's HR strategy is comprised of three primary goals: (1) building employee capabilities, (2) building employee commitment, and (3) improving the professional capabilities of the HR function itself. Key emphases of HMI's HR management infrastructure include (1) employee competency identification and development, (2) building employee participation, (3) building business literacy, (4) creating a "corporate community" through strong values and a sense of "belonging", (5) community responsibility and environmental protection, (6) competently delivering the HR "fundamentals", and (7) developing innovative partnerships with suppliers. Key challenges for the future include (1) change management, (2) clarifying HR's strategic role throughout the firm, and (3) attracting and retaining a diverse workforce. © 1999 John Wiley & Sons, Inc.

Introduction

Herman Miller, Inc., (HMI) was founded in 1905 as the Star Furniture Company and is one of the world's largest manufacturers of office furniture with net income in excess of \$74 million on sales of \$1.495 billion. Domestic operations have held sales growth consistently higher than industry norms with a growth of 19.2% in 1997 compared to the industry's growth rate of 10.7%. International sales account for \$251 million, with a growth rate of 4.6%. Historically, HMI's earnings have fluctuated with the economy. The most dramatic downturn occurred for HMI, as well as the industry as a whole, during the "downsizing" era from the late 1980s to 1992. HMI, with decades of long-term family leadership, also changed senior leadership three times between 1988 and 1995. HMI now has a stable senior leadership team and has rebounded strongly, posting record sales and

earnings for 11 straight quarters. The company employs approximately 7,500 employee-owners worldwide, 3,500 of which reside in West Michigan. HMI has been consistently ranked as one of the best places to work in America and identified among "America's Most Admired Companies" in *Fortune* magazine. Most recently, Herman Miller was ranked both #1 in its industry and #1 in social responsibility among all companies surveyed.

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HR at Herman Miller

HMI has always been a values-driven company, with a historical reputation for innovation in its relationships with employees as well as in its products. It has a rich history of leaders with strong religious beliefs and a culture that evolved from their philosophy. This culture includes a significant focus on the obligation of management to become open to ideas from all employees, the importance

of design and its principles in the development of products, employee participation, and employee ownership. In addition, HMI has adopted an "open-book management" approach, wherein employees are trained in company operations; employee input is sought and acted upon; and employees share financial gains when goals are met. The company has even enacted a Silver Parachute Plan, in which generous severance allowances will be paid to all employees in the event of a hostile takeover.

Consistent with the firm's values and history of family ownership, the HR function has long fulfilled the role of employee advocate. As a result, in recent years HR became somewhat disconnected from the needs of the business and functioned in isolation from business strategy. HR has recently transformed itself and is once again working in conjunction with corporate strategic directions and adding value to the organization and its business goals. Not surprisingly, some employees have begun to question HR's role and commitment to them. Resolving the tension between advocating employees and implementing strategy through HR has been a challenge for HR staff.

Part of the company's strategy is to eliminate waste, become more lean and focused, and look constantly for new efficiencies. Consistent with the desire to link HR more closely to the needs of the business, HR has adopted a worldwide shared services approach and has moved significant resources from corporate HR to line or business unit roles. As a consequence, the business unit leaders receive the level of support for which they are willing to pay. While the firm is still adjusting to the simultaneous deployment of shared services and a concurrent movement of a significant proportion of HR resources to the line or business unit levels, early indications of the success of this transition have been so strong that other "leverage" areas throughout HMI (finance, research and design, and information technologies) are adopting a shared services approach as well. As a result of this type of proactive reorganization and a work design oriented toward teams where possible (which requires frequent formation and dissolution of groups), a fair amount of "healthy chaos" exists at HMI. This state of "constant reorga-

nization" has been a way of life for many years, and people at HMI do not expect it to change anytime soon.

As a result of these evolutionary processes, three primary goals now comprise Herman Miller's human resources strategy: to build employee capabilities, to build employee commitment, and to improve the professional capabilities of the HR function itself.

Building Employee Capabilities

Competency Identification and Development

The firm recognizes the importance of developing employee competence in support of its values and the achievement of its strategies, and HR has recently facilitated the development of a competency model for HMI top leadership. This model is fully supported by the senior management team and is actively used in recruitment, selection, development, and performance. As a result of the success of this approach, HR intends to move this model down through all levels of the leadership throughout the firm. In addition, HR is working with each segment of its business to identify workforce competencies requiring development and training in order to build competitive capability. Business leaders are held responsible for funding the development priorities they set.

Given this focus on developing employee competencies consistent with the future needs of the business, the firm has begun to ask a number of substantial questions. For example,

- How can we create extraordinary opportunities for employees to develop their critical skill sets in support of the firm's competitive strategy?
- How do we help build the necessary competencies in a very lean environment for HR resources?
- How can we get the firm's 350 team leaders to own the people management process?
- How do we align the skills and competencies of the workforce toward new work and away from old work?

While the firm does not yet possess complete answers to these questions, their solution

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is a priority for HMI's senior HR managers.

Building Employee Participation

HMI also believes that participation in decision-making (1) is a crucial ingredient in the process of facilitating “ownership” among employees, (2) provides the company with a potential source of competitive advantage, and (3) heightens the quality of decision-making generally. Thus, HMI gives its employee-owners significant information about the ongoing financial condition of the business—their recent adoption of EVA (economic value added; a financial measurement gauging the use of capital and the generation of shareholder value) is a significant additional step in this direction. For HMI, participation is both an opportunity and an obligation for everyone. Moreover, financial information alone is not enough; HMI spends a considerable amount of effort in training employees in the *processes* through which they create economic and customer value at HMI. This is also the process through which they are beginning to drive lean thinking throughout the organization. Lean thinking drives the right sort of behaviors, and HMI is experimenting with ways to apply that thought process to every part of the business. Some HMI employees feel that significant levels of employee participation come at a cost, however, as participation can sometimes delay consensus and decisions.

As an aside, the firm has only one domestic union (in a single plant that was unionized when HMI acquired it), and even this plant is generally on board with the process of widespread employee participation. HMI has been able to make this relationship work because union leaders were involved from the outset in the design of the participation process.

Building Business Literacy

HMI's recent adoption of EVA has heightened its involvement in business literacy training. For example, the firm has developed a number of courses directly aimed at increasing business literacy.

EVA101 is a two-hour, formal course for all employees that introduces the basic concepts of EVA.

EVA201, a refresher course, also introduces more advanced concepts.

EVA301 provides even more advanced training.

Finally, HMI has developed a series of “retrain the trainer” courses to help team leaders (of which there are 350) and others in teaching these courses and concepts to other employees.

The HR function contributes to business literacy in more ways than just participating as EVA trainers. HMI's HR function evaluates every one of its own proposals from the perspective of whether they will create economic value for the business. EVA is a key driver of how HR invests its time and resources. The people involved in HMI's HR function believe they have, in identifying their goals, isolated the three drivers that allow them to have the greatest impact on the firm's EVA.

To further facilitate the communication process with employees, HMI has quarterly meetings, town hall meetings, and a variety of more informal brown bag lunches to transmit financial and operational information throughout the firm. In addition, they conduct the Monthly Business Exchange (MBX), where team leaders exchange information and ideas necessary to execute corporate and business strategies, and subsequently relay this information back to their teams.

Building Employee Commitment

The Blueprint for Corporate Community

A leadership philosophy driven by religious (primarily Christian) values has a long and very public history at Herman Miller, beginning with the firm's purchase in 1923 by D.J. DePree and a group of investors and their renaming the company Herman Miller. HMI describes itself as being “very clear about the values that bind our corporate community”, and as “taking values very, very seriously”. This view is described in two books authored by former CEO Max DePree (DePree, 1986; 1987), who outlines what he calls a “servant-leader philosophy”, an idea borrowed by Robert Greenleaf. The primary orientation is to define leadership as service to employee-owners

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and other stakeholders, as opposed to thinking of leadership as based on power over others.

Herman Miller's corporate values appear currently in the company's "Blueprint for Corporate Community", a document composed over the last year in conjunction with employees from all parts of the company. These values were introduced by senior managers to the entire company in a series of town meetings and subsequently were revised according to feedback gathered from all employees. HMI's core values are:

- making a meaningful contribution to our customers
- cultivating community, participation, and people development
- creating economic value for investors and employee-owners
- responding to change through design and innovation
- living with integrity and respecting the environment

HMI has also done a good job of deploying the "HR fundamentals" to employees.

For HMI, these core values lead ineluctably to the conclusion that employee ownership is crucial to the success of the firm. Employee ownership, in turn, requires significant levels of employee participation. Within this context, HMI has developed a management style and structure that excels at building employee-owner commitment and cooperation and in treating people with respect, dignity, and as a valued resource. As a specific example, HMI has an open door policy that allows any employee-owner to engage any leader about any issue. As a result of the firm's focus on values, employees at HMI report a very strong sense of "who they are and where they are going". There is a strong sense of "belonging" at HMI.

Employee Ownership

Consistent with its belief that an equity stake in the firm is crucial if employees are to act like owners, HMI had adopted a number of mechanisms to increase employee ownership. HMI was one of the first firms to adopt an ESOP and instituted the Scanlon Plan, a system of employee participation and gain-sharing

bonuses, in 1950. Every employee-owner with more than one year's service at Herman Miller owns company stock—through 401(k) plans, profit-sharing plans, and stock options (fully 13% of the company stock is owned by the employees). Leaders are required to abide by aggressive HMI stock ownership guidelines, based on each employee's level in the firm. In addition, a firm-wide plan pays out a quarterly bonus to all employees based on business performance improvement (the average bonus for the firm was 26% last quarter). HMI believes that each of these mechanisms helps to continuously increase the sense of ownership among employees. More recently, the firm has taken steps to link EVA with its performance management processes. Early success with this framework has been remarkable.

Community Responsibility and Environmental Protection

While not strictly a "best HR practice", the firm places a high value on becoming a good corporate citizen in the communities in which it operates, contributing to student scholarships and partnering with local schools. HMI also works hard to be a good steward of the environment, using only sustainable or renewable natural resources in its production processes, and constantly looking to reduce emissions and waste from its operating facilities.

Improving the Professional Capability of HR

Fundamentals of HR Infrastructure

HMI has also done a good job of deploying the "HR fundamentals" to employees. For example, when recruiting, selecting, and redeploying employees, HMI looks for technical as well as nontechnical skills—the ability to work in teams, business acumen, initiative, leadership, and conflict resolution skills. The firm believes that it would be difficult to fit into the culture at HMI without those and other attributes. To facilitate the selection process, the firm has developed a competency-based selection process (taken from company documents) based on: "1) determining competencies necessary for success in a position, 2)

producing interview questions focusing on those competencies, 3) conducting behaviorally-based interviews, 4) evaluating candidate responses, and 5) making an integrated hiring decision". New employees are selected during a series of structured behavioral interviews, conducted by people from HR and from the area for which the candidate is being interviewed. Once a hiring decision has been made, a New Employee Orientation program and a series of related tools helps acculturate new employees to HMI's mission, vision, and values.

Herman Miller has recently tried to integrate more closely the performance management and planning processes and the other elements (selection, training, development) of the HR system. Employees set a series of "nested objectives", such that each employee's goals are designed specifically to contribute to the achievement of the work team leader's goals, which in turn contribute to the achievement of the next higher level employee's goals. This process is designed to be very public and is intended to help make crystal clear goals and expectations, as well as to help all employees work toward the same ends. In addition, there are significant levels of formal and informal training designed to help employees understand the HMI system. Finally, HMI has a market-based compensation program that features an EVA variable pay component with unlimited upside potential for all employees.

Innovative Partnerships with Suppliers

HMI uses a wide array of external consultants and service providers, as do most other large firms; however, HMI has begun to negotiate innovative and risk-sharing partnerships with these consultants and suppliers. In working with the consulting firm Stern Stewart to develop its EVA system, HMI linked Stern Stewart's compensation to the value that it helped create, measured by changes in HMI's share price. Similarly, in a recent large-scale reengineering project, HMI and the consulting arm of EDS both invested in the reengineering process and will share in both risks and returns. For HMI, this process of inclusion simply reflects a natural extension of its focus on values, ownership, equity, and participation.

Increasing the Contribution of the HR Function to Change and Change Leadership and to Building Employee Commitment

Competition is and will remain stiff in the office furniture industry, and the pace of change is only expected to accelerate in the future. This has led the firm to become intent on proactively managing the change process at HMI and to begin to ask a number of difficult questions about how to do this: How can the HR function lead the firm's change efforts while not falling victim to the change itself? How do we increase the capacity of the workforce to positively respond to change? How do we create an "empowered" environment? How can we encourage all employees to have "courageous conversations" with each other and with their leaders? How can we manage the integrity around this process? That is, how can we encourage employees to give each other open, honest, and direct feedback in a timely manner? How can we simultaneously enhance both the commitment and accountability of the HMI workforce? How can we move to the next level?

The HR function is also asking difficult questions about its own role in this process. Specifically: How do we increase the contribution of the HR organization to the firm's strategy execution? How do we really act like business partners? What does this mean? The recent movement of HR resources to the business units is a significant positive step in this regard, but the general sense is that much more needs to be accomplished. Another tension is linked to the need for HR to support employees as well as the business. Many employees working in the HR function are asking: Who is my customer? What is my role here? How can the HR function learn to say "no" to requests that are not top priorities? How can we increase the pace, quality, and amount of communication within and between employees? The increased pace of change has increased the need to do more here. How can we become more competitive without losing our values?

Attracting and Retaining a Diverse Workforce

Last, and of major significance, the CEO has made attracting and retaining key talent and a diverse workforce a major initiative,

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consistent with the firm's mission, vision, and values. While the firm has made significant progress in this area, HMI's location in relatively rural western Michigan increases the difficulty of this goal. HR believes that a productive environment built upon its strong culture and values will enhance its ability to attract and retain key talent. In addition, HR

believes that attracting and retaining best-in-class talent requires continuing business success; corporate-wide commitment to living the company's core values; superior employee growth, development, and participation opportunities; and superior opportunity for employee-owners to share in the financial success of the business.

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