

# It's All About the People: Developing and Measuring Talent at American Standard

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## Introduction

*“We recognize the importance of our people.”*

It is a simple statement that any business could make. But for American Standard, the 76-year-old Fortune 500 company with 61,000 employees around the world, the statement represents not mere words – it is an operating philosophy. One of five core values embraced by the company, the statement is an acknowledgment that superior human capital management is the only path forward for individuals and organizations in today’s global marketplace. And it is a commitment backed up with a variety of company-wide human capital initiatives.

What makes American Standard a true pioneer in recognizing the importance of its people, however, is the company’s commitment not just to managing talent but also to measuring the results. American Standard’s leaders understand that you can’t say you value human capital and then not quantify it. You can’t say that developing talent is important to your success and not also have a way to identify which specific aspects of human capital management are most directly driving business performance.

Many organizations today talk the talk about investing in their people. But without a clearer understanding of the business impact of those investments, it is unlikely that their actions will ever match their words. Current systems of accounting, reporting and measurement have led to a systematic underinvestment in the management and development of people relative to other assets in the organization.

American Standard is showing there’s a better way, while proving beyond a shadow of a doubt that there is money to be made by getting smart about human capital management.

## A 14 Month Turnaround

In October 2002, Kevin McNamara assumed the top post at the struggling Connecticut district office of Trane, an American Standard business. Over the following 14 months, he and his leadership team oversaw a major turnaround in the office's financial results. It went from losing money to producing millions of dollars in annual profits for Trane, a leading global provider of heating, ventilating and air conditioning (HVAC) systems.

Asked to name the single most important factor in the office's about-face, McNamara said, "It's all about the people."

To which he might have added: It's also about the resources people have to support their development, and the systems for making sure that we get the most of our investments in human capital.

Upon taking control of the Connecticut operation, McNamara immediately made use of a variety of tools available to Trane managers and employees through a web-based talent management portal built by the company's corporate parent, American Standard. "We worked with people to articulate what they needed to focus their energies on how to move forward in their jobs in a way that aligned with the business's broader goals," said McNamara. The tools enabled Trane's Connecticut associates to define their career aspirations, assess their competencies, build development plans, define specific performance goals and metrics, and measure their progress.

"It's our people that make our business happen and deliver for our customers," said John Conover, president of Trane Americas Region. "We have a responsibility to our employees, our customers and our business to provide the tools and processes that enable our associates and leaders to manage and develop talent effectively. Trane's Connecticut office maximized these tools and processes and successfully proved the relationship between leadership, human capital and performance."

## “Raising the Standard”

Alignment. Connectivity. Linkage. They are words you hear again and again when talking with American Standard executives about the work they are doing in human capital management and its relationship to business outcomes. American Standard has moved beyond the process of simply talking about the connections between people processes and business performance: the company employs a rigorous measurement tool that tracks the business impact of its human capital management initiatives, and using the resultant insights to improve the impact of its HCM initiatives..

“We are big believers that talent drives results,” said Larry Costello, American Standard’s senior vice president of human resources.

American Standard, based in Piscataway, New Jersey, is known for its bath and kitchen products. But the company does a whole lot more. In fact, nearly 60 percent of the company’s revenue comes from commercial and residential air-conditioning systems sold under the Trane and American Standard brands. Another brand under the American Standard umbrella is WABCO, maker of electronic braking and suspension systems for heavy trucks and buses. With operations in 28 countries, American Standard earns half its revenues outside the United States.

The company’s embrace of human capital management as a strategic priority dates to the arrival of Chairman and CEO Fred Poses in 2000. Poses took the reins at American Standard after leaving Allied Signal, where he had been president before that company’s merger with Honeywell. Upon arriving in Piscataway, Poses brought in a new leadership team – Costello was one of his first hires – and initiated a process to develop a set of five values that would guide the business. Along with the importance of people, the values emphasize a customer orientation, integrity, excellence and “delivering on our promises.”

The new values were and remain the foundation of a company-wide transformation that Poses called “Raising the Standard.” His goal from the outset was to take the venerable company from good to great. Poses regularly refers to the company’s progression toward this goal as a journey, and he views the skills and talents of American Standards’ employees as an essential factor in making the journey a success.

Poses’ commitment to human capital management as a cornerstone of business success came through loud and clear in one of the “letters from Fred” that he regularly sends to all employees. “When you take a look at how far we’ve come and where we plan to go, one thing is clear: It’s the people of American Standard who are responsible for our progress,” he wrote in October 2004. The letter continued: “So we will continue to

invest in development and training opportunities to help advance their careers and help us take our company where it has to go.”

Guiding those investments is Larry Costello, who said that he and Poses had a “linked vision” from the start about the role of human capital management in American Standard’s future success.

“I had been attempting to bring all of this together in one place for some time,” said Costello, reflecting on his time in senior HR positions at Campbell Soup and, before that, Pepsico. “And in Fred I saw a great leader with a relentless passion and an understanding of talent.”

Costello said his major goals after joining American Standard were to align HR processes across the company and make “strategic talent development” a priority. His philosophy, he explained, is that people should be managed as assets rather than costs.

“We knew from the beginning that it is all about talent,” Costello said.

The challenge facing Costello, however, was that American Standard had no company-wide systems or processes in place for managing or developing talent; Costello referred to the company’s human resources capabilities as “a 75-year-old, greenfield operation.”

Human resources functionality, he explained, resided at the business level with no direction from corporate. As a result, Costello’s job took on a change management aspect. “I started to think about how I could influence businesses on a global basis and begin the change process,” he said.

Costello also was interested in freeing American Standard’s businesses from having to tailor their own human capital management initiatives out of whole cloth. He wanted to make them “less reliant on themselves to craft best practices,” he said, by creating a “center of excellence” in Piscataway that would make world-class tools and strategies available company-wide.

## Talent Development in Focus: Theme

At the same time that Costello and Poses were pushing the talent agenda at the corporate level, the Trane business was facing a shift that made human capital management that much more important. Trane used to rely on new construction for most of its business. The company's focus: selling, installing and servicing HVAC systems for the new building market.

Today, however, it is *existing* buildings that represent most of the market opportunities. The emergence of the existing building market as the company's main source of revenue forced a transformation in thinking and strategy at Trane, a business with 20,000 employees and revenue of more than \$4.0 billion.

"We had to create competencies in selling and delivering solutions to building owners," said Craig Alexander, American Standard's director of organizational development. "Everything we did – talent and metrics together – was oriented to the new construction market. So we had to transform the organization, and managing and developing talent became a critical core competency to make it happen."

Maureen MacInnis, vice president of human resources for Trane in the Americas, said the demand for "higher value-added, people-dependent solutions" in the existing-building market compelled Trane to take steps to integrate the business's four revenue streams of equipment, services, parts and contracting.

"Historically, our people could be successful focusing only on equipment and new construction, and the demand for higher value-added, people-dependent solutions didn't exist," said MacInnis.

"It was essential for us to advance our talent development and align it with the knowledge our people require to be competitive in an evolving market and with customers that demand more. Finally, our 2006 HCCS actions are incorporated in our 2006 Annual Operating Plan and we are developing and implementing action plans to address our HCCS gaps for every office/country and territory," MacInnis added (see more on the HCCS below).

"Our products run the risk of becoming commodities if we do not address the very different needs of our customers," added Alexander. "The difference is our people and the knowledge they have and their ability to deliver unique products and services to a different market."

Kevin McNamara, the former Connecticut district manager who now heads Texas Trane, agreed. "It is not about the products but about your

people and their knowledge and relationships in the market. If you don't have the best team on the field every day, you will lose."

Of course, Trane has long been aware of the value of human capital and learning. For more than 50 years, the business has operated a six month long Graduate Training Program that is widely recognized as the best in the heating, ventilation, and air conditioning (HVAC) business. ("Trane trains the industry," the saying goes.) But Trane's talent orientation has now reached a new level.

Because of the shift in its business model and the new imperative to develop its employees, Trane became American Standard's poster child for talent management. As Costello started pushing the talent agenda at the corporate level, Trane executives enthusiastically jumped on board and began applying the new tools that American Standard developed for company-wide use.

"We have done a tremendous amount of work around systematically identifying talent and putting development programs in place," said Conover, president of Trane Americas Region.

## New Tools for the Job

Under Poses and Costello, American Standard developed a variety of tools and strategies to institutionalize talent management at the company. The flagship of this company-wide effort is the web-based, self-service Talent Management System. This portal provides a one-stop location where employees and managers can go to set goals, craft development plans, trade feedback, acquire skills, and chart their progress – all in a way that aligns individual and business unit goals with the company's broader priorities.

“The Talent Management System provides the means for marbling our talent development processes into the infrastructure of how we manage the company,” said Alexander.

This “marbling in” process begins anew every year, when American Standard executives craft a set of overall goals for the company in areas from financial performance to safety, new product development, and investing in people through talent and skills initiatives (see box, with people-related items highlighted). Next, these overall goals cascade down the organization to each business, business unit, department and employee, with each group identifying its role in meeting the goals.

During this phase, employees and their managers use the web-based platform to create performance management plans (PMPs) and personal development plans (PDPs) that align American Standard's goals with those of the business unit and employee. Throughout the year, managers meet with employees to check progress toward their PMP and PDP goals and to make sure they are still on course. And, at year end, results are measured to see how far employees and business units have come.

The “cascading down” of corporate goals is a key feature of the system, according to Alexander. “If Trane says we want 12-percent growth in a certain area, then it will align all the way down. The tool allows us to cascade that goal down through the business unit to the departments and finally to employees, and everyone is in alignment.”

American Standard's talent initiatives are founded on two pillars: manager-led development and employee self-service through the use of the web-based development tools.

CEO Fred Poses described the benefits of the system in a December 2003 “letter from Fred”: “This helps our people grow and be successful on the job, and take real responsibility for the achievement of their goals. It's how we'll make American Standard best in the eyes of our employees and the kind of company we want it to be.”

Jeff Watson, Trane's territory leader for the Southeast, said the talent management system has become an essential tool for him. "This online process allows you to help the associates manage their careers and grow skills in line with the vision and goals of the company," he said. "You look at the skill sets you want to improve and then you can select learning and other types of training to improve those skill sets."

Watson added that he sits down with his leaders to review their PMPs every quarter. "It's now a part of the process – and an increasingly important part."

## Scorecard Measures Return on Talent Investments

American Standard's commitment to the development and management of talent as a core competency is obvious and has spawned an array of new investments and strategic initiatives. But how can the company know that these initiatives are producing results? If American Standard is making all these new investments and launching a change management process, how can it know which of these investments are paying off – and, equally important, how to improve the payoff by ensuring that its human capital and business strategies are truly aligned?

Measurement. For knowledge-era organizations, it is an essential element of any serious and self-respecting effort to leverage people and talent for competitive gain. Yet, very few companies do it. And even fewer do it with the rigor needed to yield real insights and actionable results.

American Standard is among the fewest of the few. In 2003, the company began using an innovative scorecard that measures organizations against key factors that are proven leading indicators of organizational outcomes. The Human Capital Capability Scorecard (HCCS), developed by McBassi & Company, generates rigorous, fact-based, prioritized recommendations for improving an organization's key outcomes, such as financial success, safety and employee commitment. It is a management tool that leaders can use to pinpoint the specific aspects of talent management that are the drivers of superior financial outcomes.

In 2005, American Standard completed the largest-ever implementation of the scorecard, with 70 percent of its employees participating across 300 business units around the world. The 2005 implementation followed a more limited 2003 rollout of the scorecard in American Standard's North American operations.

American Standard's leaders view the HCCS as a powerful way to get beyond intuition and mere common sense to rigorous management and deployment of resources. "This isn't a survey that asks if you're happy with your pay," explained Costello. "It is about whether we are transferring knowledge and optimizing our workforce and taking other steps we need to take so that talent becomes a driver of business success. It creates a context for management and leaders to sit down and have a constructive conversation about the value and importance of the work."

"With 300 different reporting entities, this tool allows us to drill down and diagnose where we are doing well and where we aren't," added Craig Alexander. "We may have gut feelings about what we're doing right or

wrong, but those feelings aren't worth much without the confirmation that the scorecard provides."

The HCCS, according to Costello, is a "tool not just for understanding where we stand but also for helping us decide what to work on from a leadership and human capital perspective."

The key defining feature of the HCCS, in Costello's view, is that it taps into the "voice of the customer": American Standard's 61,000 employees. Equally important, it uses the voice of the customer as the basis for forging greater alignment between the human capital strategy and the business strategy of the company.

"I have never seen a tool that could be this powerful or this definitive in capturing the impact of human capital initiatives," Costello said. "For the first time in my career, I have found a place for the HR function to go and be able to support what the business ultimately says it wants."

## Scorecard Results

The first major rollout of the HCCS in North America (in 2003) was designed to test American Standard's belief that talent drives business performance. Information was gathered from over 5,000 American Standard employees who completed the HCCS questionnaire, and McBassi compared the metrics on talent to the 2003 financial results for the 48 company-owned district sales offices in Trane. To the delight of American Standard's HR leaders, this analysis revealed a statistically valid correlation: Those offices that fared better in developing and managing talent also produced better financial results.

"We've always known that the ability to manage talent is a critical core competency," said Alexander. "But it is hard to see. The survey reinforced our gut feeling and let us see this core competency that would otherwise be invisible to us."

Trane's Maureen MacInnis added that in a culture dominated by engineers, measurement is a critical tool for changing behaviors and attitudes. "It's very powerful in our culture to have a measurement tool like this," she said, noting that most Trane employees are engineers. "This means something to them. The fact that it is quantified is critical," MacInnis added.

Trane's Southwest territory leader, Jeff Watson, said he has seen "outstanding correlation" between what the HCCS shows about the offices in his region and their overall business performance.

"What's great is it has given me a way of showing district leaders that they have leadership issues in their organizations, and it is hard for them to deny it when you have these quantitative measures," Watson said. "The power of the tool is it gives you something more than rumor. You have the data and it even goes a step further and offers insights on specific areas you can work on."

One specific area that was drawn out in the 2003 scorecard results was the strength and the quality of the leadership in Trane offices. "We saw the scorecard as a great tool for understanding where existing leaders were being successful and where they needed development," said Trane Americas Vice President John Conover. He added that Trane then approached every district manager and territory vice president – 60 people in all – to develop plans for improving on the 2003 leadership scores.

"When we looked at the results, some offices were highly successful, and it correlated with the way the business performed," added MacInnis. Since 2003, she said, Trane has replaced half of its leaders, in part because of the scorecard results. Leaders of the five offices with the highest HCCS scores have all gone on to bigger jobs.

“When you do a survey like this, you have to do something based on the results. You need a plan for what to do with the information you are collecting,” MacInnis said, “even if that forces you to make tough decisions.”

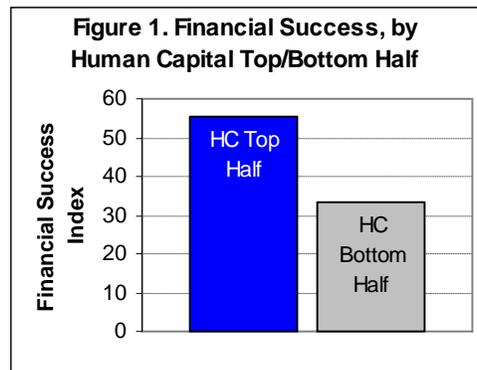
In Jeff Watson’s Southeast territory, the 2003 results provided the basis for a wholesale leadership shuffle. “The tool basically confirmed what we thought about how different offices were doing under different leaders,” he said. “In each office where we have changed out leaders, the effect has been dramatic.” Those leaders who stayed in their posts despite less-than-stellar scores have been working on specific goals to improve their performance on critical human capital issues. Watson even made an improved HCCS score a condition for one leader’s compensation package.

Watson’s reliance on the HCCS is not unusual. MacInnis said she works with territory and district leaders to make sure the HCCS results inform their annual operating plans. “The idea is to take one component of the HCCS and work through a plan that says this is what we will do,” she said. “You don’t want to do everything, but this lets you identify what’s important to focus on and come to a solution.”

With the global implementation of the HCCS in 2005, American Standard executives were looking for a different level of participation. And that is exactly what they got: 70 percent participation. At Trane, the numbers were even higher: a 76-percent rate among all offices, with some registering 90-percent participation or more.

In addition to the company-wide results, the 2005 HCCS reported findings for each of the businesses. McBassi’s analysis of the 2003 and 2005 results showed a number of clear correlations between human capital factors and specific business outcomes. For example:

(1) Among sales offices, there were dramatic differences in performance between those with the top human capital scores and those with the lowest scores. The financial success scores in 2004 (the most recent year for which data were available) of the offices in the top half in the most recent HC scores were, on average, approximately 65 percent higher than those in the bottom (see Figure 1).



(2) Among American Standard's manufacturing plants, 2003 human capital scores were an important predictor of plants' safety rates in the following year. Plants in the top half in human capital scores had an average incident rate that was 14 percent lower than those in the bottom half.

(3) McBassi identified three specific human capital practices that were among the most important predictors of *both* financial success and safety:

- (a) having employees engage in one-on-one discussions with their managers to review performance;
- (b) setting aside time for sharing of tips and best practices; and
- (c) offering training to employees that is practical and applicable to their day-to-day work.

After the August 2005 release of the findings, business and HR leaders throughout the company began reviewing the results for their areas, developing initial action plans, and building plans for sharing the results with employees.

MacInnis said the 2005 results have provided the basis for discussions between Trane managers and employees about strategic priorities. "We want them to translate this information at the office level into plans for how to perform better," she said.

Costello added that it is not just managers and employees who use the results to change their work. American Standard's board also sees it as a useful tool. "It's helped the board understand and appreciate the value of development and what human capital indices look like," said Costello. "For the first time, they are seeing a way to measure, and it gives them comfort that the business is investing in the development of people and then linking those investments to the business."

## Moving Forward

After his success in turning the Connecticut office around, Kevin McNamara now heads Texas Trane, which has more than 300 employees and is the company's largest office. He said that the HCCS, combined with American Standard's Talent Management System and other initiatives, has yielded a "very clear understanding" by managers and employees about the interplay involving talent, individual and business success.

"There is a real sense among people that they are important, that they matter and can make a difference, and that they will now be held to a higher standard," he said.

In Jeff Watson's Southeast region, revenues are up 33 percent over last year. Some of that can be attributed to stronger economic conditions, Watson said. But he is also convinced that a significant portion of the growth has come from a new appreciation of the value of leadership. "I'm convinced that a lot of what we are seeing is the result of new leaders coming in and taking advantage of these development tools and the measurement systems we have," he said.

Looking ahead, American Standard's senior leaders said the HCCS results can provide a foundation for stronger performance throughout the company. "I want to invest as much time as possible to make sure we have an understanding by leadership of the power of this tool," said Costello.

With good data, clear linkages to performance that yield actionable insights, and an array of initiatives and tools for making talent development a company-wide priority, American Standard is raising human capital management to another level.

"Instead of HR always trying to defend the ramparts, we are taking a different approach, based on the belief that human capital helps you differentiate and sustain the performance of the business," said Costello. "We are working to create a linkage between what employees believe is important for their success and what we believe is important for the business."

Kevin McNamara said the focus on talent and its connection to business results is "much more than a passing fad." The combination of pending retirements and the fact that it takes him three to five years to develop an employee has made talent development his number-one concern. "If I am not focused on this, I'm not using my time very effectively," he said. "As a company, we need to do everything we can to put the talent issue front and center."

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## About McBassi & Company

McBassi & Company is a research-based consulting firm that has the expertise and tools to help organizations use measurement as a catalyst for improving their return on people. For more information about McBassi & Company or its services, call 413.233.6558, email [info@mcbassi.com](mailto:info@mcbassi.com), or visit the company website at [www.mcbassi.com](http://www.mcbassi.com).