

**CHAPTER 1**  
***What HR Can Do***

Global competition, advances in information technology, offshoring, and a host of other changes are constantly forcing organizations to examine and reevaluate how they are creating new strategic initiatives and signing up new customers. They are utilizing new technologies, automating processes, redesigning work, relocating their workforces, and streamlining processes to respond to an increasingly dynamic and competitive environment. These important changes are forcing organizations to reevaluate their human capital and their human resources. How are organizations changing their human capital management? Are they redesigning their HR functions?

During the past decade it has been difficult to find a business magazine that doesn't point out how important human capital is in the business world. Human capital has become the most important asset (Lawler 2008). The focus of a great deal of writing has been on developing the "right talent" (Guthridge,

The annual reports of many corporations and intellectual property are their most important assets. In manufacturing organizations, compensation is one of the largest costs. In service organizations it often represents 70% of the cost of doing business. Adding the costs of human resources management activities to compensation, the human resources function often has represented 10% of an organization's total expenditures, and

But the compensation cost of human capital is the most important consideration. Even when it represents a very little of the cost of doing business, human capital has a significant impact on the performance of most organizations (Cascio and Boudreau 2008). In essence, most organizations are likely to have little or no impact on the performance of manufacturing production facilities require skilled workers to operate them. Knowledge work organizations

Not all organizations can or should look upon human capital as a major source of competitive advantage (Lawler, 1995). For organizations it may be sufficient to simply have the ability to do relatively simple jobs effectively. But in an increasingly competitive environment, organizations, talent that is better trained, motivated, and engaged is a source of competitive advantage. It can make a firm more productive, more innovative, develop superior products, gain market edge, and offer superior services.

A growing body of evidence affirms that HR practices have a significant impact on the performance of an organization (Lawler, 1995). Brockbank, Johnson, Sandholtz, and Young (1997) studied the relationship between a firm's performance and its HR practices. Conducted by Becker and Huselid (1998). In their study of 100 organizations, they found that firms with the greatest HR practices that reinforce performance had the highest performance. They argued that HR practices are critical in determining the value of a corporation, and that improvements in HR practices lead to significant increases in the market value of a corporation. They concluded that the best firms are able to achieve strategic excellence in their HR systems.

### **Roles of the Human Resources Organization**

The HR function can add value by adopting a strategic approach. But two other roles that it can take on allow it to be more strategic. Lawler (1995) has developed this line of thought. He identifies three roles HR can take on. The first is the familiar administrative role (Exhibit 1.1).

The second is the role of business partner (Exhibit 1.2). In this role, HR is developing systems and practices to ensure that the organization's resources have the needed competencies and are being used effectively. In this approach, HR has a seat at the table when business issues are discussed and brings an HR perspective to the discussion. When it comes to designing HR systems and practices, HR focuses on creating systems and practices that support the organization's strategy. HR measures the effectiveness of the organization's HR practices and focuses on process improvement.

The business partner approach positions the HR function as an added part of an organization, so that it can

<b>AIMS</b>	Support business. Provide HR services.
<b>PROCESS</b>	Build performance management capabilities. Develop managers: link competencies to business strategy. Plan succession. Enhance organizational change capabilities. Build an organizationwide HR network.
<b>PLANNING</b>	HR (and all other functions) inspect business strategy and inserted in the planning process.

*Exhibit 1.1. HR management*

<b>AIMS</b>	Line management owns human resources. HR is an integral member of management. Culture of the firm evolves to fit with strategy.
<b>PROCESS</b>	Organize HR flexibly around the work to be done (including outsourcing). Focus on the development of people and organizational design). Leverage competencies, manage learning and development, redesign capabilities.
<b>PLANNING</b>	An integral component of strategic and tactical planning by management team.

*Exhibit 1.2. Business partner*

<b>AIMS</b>	HR is a major influence on business strategy. HR systems drive business performance.
<b>PROCESS</b>	Self-service for transactional work. Transactional work outsourced. Knowledge management. Focus on organization development. Change management. Human resource processes tied to business processes.

In acting as a strategic partner, HR plays a role in helping an organization develop its strategy. Not only does HR help to set the strategy table, HR helps to set the table. Boudreau and Ramstad (2005b, 2007) support this idea by suggesting that HR's role is shaped and enhanced by bringing a human resources perspective to HR's role in strategy.

In the knowledge economy, a firm's strategy is defined by its talent. Thus the human resources function should be designed as a strategic partner that participates in the formulation and implementation of strategy. Its expertise is in analyzing, designing, developing, and implementing organizational strategy. Ideally, the HR function should be knowledgeable about the business and expert in organizational and workforce issues. HR can help develop needed organizational capabilities and manage organizational change as new opportunities become available.

To be strategic partners, HR executives need to understand the business, business strategy, organization design, and human capital. They need to know how integrated human resources strategies can support organization designs and how to implement them. This requires extending HR's focus beyond delivery of services to a focus on the quality of decisions about human capital (Boudreau and Ramstad 2007).

As a strategic partner, HR can bring to the table a perspective often missing in discussions of business strategy: the importance of the human capital factors and the organization's ability to execute. HR is critical in determining whether a strategy is executable. Many more strategies fail in execution rather than in formulation (Lawler and Worley 2006).

Despite compelling arguments supporting human resources management as a key strategic issue in most organizations, a survey of others finds that human resource executives do not see HR as strategic partners (Lawler 1995; Brockbank 1999; Lawler and Mohrman 2006). All too often, the human resources function is seen as an administrative function headed by individuals who are not focused on cost control and administrative efficiency (Lawler and Mohrman 2003a; Boudreau and Ramstad 2007). Almost entirely from the list of HR focuses are

There is some evidence that this situation in the human resources function is beginning to redefine the value it adds. The first four phases of the study (1997, 2001, and 2004) found evidence of some greater desire for change than actual change (Lawler, Boudreau, and Mohrman 2006). The next study is to determine whether this is still the case and become a strategic partner.

One possible view of the human resource function is presented in a study of business process reengineering (Fitz-enz, and Madden (2004). It shows how British Petroleum, International Paper, and Procter & Gamble transferred many HR administrative activities to vendors, and to highly efficient processing centers. The HR function was left to focus almost exclusively on buying and managing the organization and its human capital.

Outsourcing HR administration is consistent with the view that the HR function needs to be redesigned as a business partner (Ulrich 1997; Ulrich, Losey, and Linstead 2005). Brockbank (2005) has argued that the HR function's compelling value proposition that focuses on the value of an organization's intangible assets is the key to its success.

Boudreau and Ramstad (1997) note that the HR function has evolved in a way similar to finance and marketing as largely administrative units (accounting, legal, and IT) into business partners that help formulate business strategy. Indeed, they have been so successful that they don't have to refer to themselves as business partners.

### **Creating Change**

Describing the new role of the human resources function is the first step in the HR function's transition to a strategic partner. For decades, the human resources function has been staffed to carry out administrative activities. These activities require a different mix of activities and people. Redesigning the HR function to support change requires a different organization design. It also will require a transition to have very different competencies to support the new role.

that traditionally have been performed by HR by employees and managers on a self-service systems simplify and speed up HR activities such as job posting and placement, address changes, and HR administration; they can handle virtually any HR task. What is more, these systems are available and can be accessed from virtually anywhere by anyone. They are possible, convenient, and efficient.

Perhaps the greatest value of HR IT systems is the integration and analysis of the HR activities. This allows HR to make HR information much more accessible and to guide strategy development and implementation. The HR activities tracked and analyses performed that make it easier for HR to develop and allocate their human capital (Boudreau and Ramstad 2007; Lawler, Levenson, and Boudreau 2007).

A strong case can be made that HR needs to move beyond HR and analytics capabilities. Our previous four characteristics are one of four characteristics that lead to HR success. HR Managers and executives want measurement and analytics to make decisions about human capital. All too often HR uses the traditional paradigm of delivering HR services in ways that satisfy clients (Boudreau and Ramstad 2007).

HR has become more sophisticated in its measurement and analytics. It seems to be leading to increases in organizational performance. HR leaders can now be held accountable for HR performance. Employee attitudes, bench strength, and performance are all being measured. However, this is not the same as creating an effective HR system. It is how to use HR measures to make a true strategic HR organization.

Boudreau and Ramstad (2007) have identified the components of a measurement system that drive strategic HR success: logic, analysis, measures, and implementation. All are essential, without the other three components, the system remains isolated from the true purpose of the HR system.

Boudreau and Ramstad have also proposed a framework for HR success. It is a series of strides by learning how more mature and powerful HR systems have evolved their measurement systems (Boudreau and Ramstad 2007).



learning how these fields evolved into the present functions they are today. Their evolution process should be next for HR. The answer lies not just in other organizations but in evolving to be similar to organizations such as finance and marketing.

In marketing, decision science enhances decisions. In finance, decision science enhances decisions. In human capital, a decision science should enhance decisions. In talent and decisions made both within and across organizations, Boudreau and Ramstad have labeled this *emerging talentship*, because it focuses on decisions that uncover the hidden and apparent talents of current employees (Boudreau and Ramstad 2005a, 2007).

### **Organization Design**

Organization design is increasingly being redefined and enables organizations to develop capabilities in ways that produce a competitive advantage. Organizational design features with an eye to the value they help the organization accomplish:

Organization design is more than structure; it includes management processes, rewards, people systems, and work processes. These elements must fit each other for an organization to perform effectively.

Organization designs involve complex trade-offs. Clearly, one design approach does not fit all situations. As business models emerge, new approaches and organizations are developing up to deal with the complex requirements that they must address. These new models include complex, integrated firms, customer-focused designs, and networked organizations. Furthermore, multibusiness corporations are emerging. These businesses exist in different markets and face different challenges. Consequently, variation in organization design exists between multibusiness corporations and between businesses. Thus, for the organizations and the HR functional areas, different organizational forms result in different HR functional designs, and thus different HR functional designs.



2006). Confirmation of this statement is provided by Benson's 2001 study of the Fortune 1000 relationship between firm financial performance and human capital management practices designed to increase human capital.

Recently, O'Toole and Lawler (2006) have argued that different approaches to managing talent have encouraged different approaches to organizing and managing talent. The low-cost-operator approach calls for a highly structured jobs and excellent control systems, while the high-involvement approach and the growth approach require interesting, challenging jobs as well as people in contact with the external environment. The growth approach to management and then implementation presents a chance for the HR function to add value.

### **Design of the HR Function**

All parts of organizations—operating units, divisions, and business units—need to be designed to deliver high value. This requires the development of a business model that defines what kind of value they will deliver and what customers are willing to pay for because it enhances performance. The HR function must determine how services can best be delivered.

The HR organization must think about what it can do. The design of the HR function indeed does create value—that is, one capable of delivering value by using the fewest possible resources. Doing so requires that the way HR organizes to deliver routine transactions, HR systems development and administration, and HR support.

HR must think about its own structure, processes, and competencies. HR must ensure that HR is using information technology to ensure that services are deployed to deliver value. In addition to being optimally designed, HR must also ensure that it is helping design the company and its various parts.

Organization design decisions for HR functions as a whole are made in four key areas:

1. Which activities should be centralized and which should be decentralized in order to provide for the needs of different parts of the organization? Organizations are combining centralization and decentralization to be big (coordinated) in functions such as HR and IT, and small (flexible) in functions such as new product development. Advantages to being big; and small (flexible) in functions such as new product development.
2. Which functions should be performed in-house and which should be outsourced? Companies should outsource non-core, high-quality services and products more than they can generate them internally.
3. Which functions should be hierarchically controlled and which should be integrated and controlled laterally? Organizations should function in a lateral manner to leverage synergies across various parts of the organization. Functional units to carry out entire processes for suppliers and customers. Organizations should leverage across business units while maintaining management approaches that give the organization control and control to various business units.
4. Which processes should be IT-based? To be wired and have ERP systems that can do the administrative work of HR, but when is it advantageous?

Traditionally, HR has been organized in a hierarchical manner (like many other staff groups such as IT), and it has been responsible for recruiting, administering, and enforcing adherence to policies. As a result, often HR has been seen as expending resources disproportionate to the value it adds to the company. Among the changes in structure and process being advocated for staff functions such as HR are:

1. Decentralizing business support to operational units to increase responsiveness.
2. Contracting with business units for the services they need, and perhaps even requiring services from them.

4. Using information technology to make HR more effective and to deliver increased value.
5. Participating in cross-unit teams in order to improve services, to partner with customers to improve HR systems, or to bring the HR perspective to cross-functional team activities.
6. Creating centers of excellence that provide consulting capacity to the business.
7. Increasing the rotation of people with experience between staff and line, and having fewer narrow staff functions, in order to broaden the experience of staff professionals and increase their effectiveness as well as increasing depth of understanding of line management.
8. Fitting the services and structures of HR to the business strategy.

### **Conclusion**

The future of HR functions in organizations is uncertain. On the one hand, if HR doesn't change, it could end up being a support function that manages an information system and vendors who do most of the HR administration. On the other hand, it could become a driver of organizational success. In many organizations, one of the main competitive advantages is effective human resource management. In the past, the effectiveness of an organization has been largely dependent on its ability to address issues such as knowledge management, and capability building, which are core HR functions. The unanswered question is whether the HR function will rise to the occasion and address these issues. The fact that HR shows relatively little attention to them in the past and pressure to change may have created