HR As A Strategic Partner:
What Does It Take
To Make it Happen?

CEO Publication
G 03-2 (430)

Edward E. Lawler III

Susan A. Mohrman

Center for Effective Organizations
Marshall School of Business
University of Southern California

January 2003

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by Edward E. Lawler III & Susan Albers Mohrman

A number of articles, books and studies have argued that HR needs to become a strategic partner (Ulrich, 1997; Brockbank, 1999; Lawler & Mohrman, 2000a). But is HR becoming a strategic partner? What does becoming a strategic partner entail? And is the HR function more effective when it is a strategic partner? The answers to these questions are critical to the future development and direction of the human resource function in organizations.

A number of forces have converged to support the idea of HR being more of a strategic partner. Corporations are undergoing dramatic changes with significant implications for how human resources are managed. Perhaps the most important of these changes is the rapid deployment of information technology and the increasing amount of knowledge work that organizations do. Also important are the rapidly changing business environment and the increasing complexity of modern organizations. These and other changes have created a growing consensus that effective human capital management is critical to an organization's success (Jackson, Hitt, & DeNisi, 2003). This raises the important questions of how human capital should be managed and the kind of functions that HR should perform with respect to human capital management, and how the HR function should be organized in order to add value in the changing business environment.

There is little question that for most of its history HR has mainly focused on the administrative aspects of human resources management. With the growth of information technology, however, the hold of the corporate staff of HR on this work is weakening

significantly. Much administration can be done by self-service information technology solutions that are either hosted by the company or outsourced.

The HR function can and increasingly is making significant contributions to building an organization that is staffed by the right human capital to effectively carry out the work of the firm and to enable the accomplishment of business strategy. It does this by developing competency models and by focusing on recruiting, staffing, and developing individuals. Although information technology is an important tool in the administrative and transactional aspects of staffing and competency development, these functions and their supporting systems are best crafted and carried out by professionals who are knowledgeable about the organization as a business and as a strategic entity. Additionally, the many judgment, dynamic, and tacit aspects of this work mean that HR will continue to play a critical value-adding role in this area. But it may not be the most important work that the HR function can do in the future.

HR's greatest opportunity to add value may well be to play a role in the development and implementation of corporate strategy. HR can make a logical case for being an important part of strategy development, because of the importance of human capital in the ability of the firm to carry out its strategy. Increasingly, talent limitations and limited organizational flexibility in the application of scarce talent to various opportunities constrain the strategic options of the firm (Mohrman, Galbraith, & Lawler, 1998). At least in theory, this should mean that HR can play an important role in the formulation of strategy by making explicit the human capital resources that are required to support various strategies and strategic initiatives, by playing a leadership role in helping the organization develop the necessary capabilities to enact the strategy, and by playing a strong role in implementation and change management. Most strategies, like most mergers, fail not because of poor thinking, but because of poor implementation. Implementation failures

usually involve the failure to acknowledge and build the needed skills and organizational capabilities, to gain support of the workforce, and to support the organizational changes and learning required to behave in new ways (Tenkasi, Mohrman & Mohrman, 1998). In short, execution failures are often the result of poor human capital management. This opens the door for HR to add important value if it can deliver change strategies, plans, and thinking that aid in the development and execution of business strategy.

Staff functions, in general, are under fire in organizations because they are frequently perceived as controlling rather than adding value, and as not responding to operating units' demands for change. They are being asked to change to provide expert support to the strategic initiatives of the company, and to take advantage of technology and other approaches to deliver more efficient and responsive services. Despite compelling arguments supporting the view that HR management is the key strategic issue in most organizations, HR executives historically have not been strategic partners (Lawler, 1995; Brockbank, 1999; Mohrman & Lawler, 2000a). The HR function has been an administrative function headed by individuals whose roles are largely focused on cost control and administrative activities (Ulrich, 1997).

A number of studies have investigated the potential for the HR function to be a strategic partner and found that it can be a value-added function. For example, work by Becker and Huselid (1998) found that there is a relationship between HR practices and firm performance. They found that firms with the greatest intensity of HR practices that reinforce performance had the highest market value per employee. They go on to argue that HR practices are critical in determining the market value of corporations, and that improvement in HR practices can lead to significant increases in market value. They conclude that the best firms are able to achieve both operational and strategic excellence in their HR systems and functions.

Perhaps the major champion of HR as a business partner is Dave Ulrich (see, for example, Ulrich, 1997). He has argued that the HR function needs to become strategically proactive, that HR needs to go beyond administrative expertise and be an expert in strategic business partnership, change management, and employee advocacy. Wright, Dyer, and Takla (1999) argue much the same thing in their HRPS-supported report in which they found that there is a growing consensus in support of Ulrich's model, but that HR is not seen as able to execute on this model.

Although there has been a great deal of normative writing about the role HR *should* play, there has been little empirical investigation of whether it is actually playing this role. Likewise, there has been more speculative than empirical examination of what it takes for HR to become a strategic partner. This article reports on the results of the third HRPS-sponsored Center for Effective Organizations study of HR in large corporations. The major focus of these studies is on practices, structures, and activities that determine the effectiveness of HR, with particular attention to the development of a business partner and business strategy capability within the HR function. Previous rounds of this study have focused on what makes the HR function effective and how it is changing over time. The results argue strongly for HR taking on more of a strategic partner role (Lawler and Mohrman, 2000b).

What is needed in order for HR to become more of a strategic partner? The consensus seems to be that change is required both in the skills of individuals in the HR function and the way the HR function is organized and carries out its activities. HR not only needs to have competencies having to do with the business issues involved in strategy and strategy development, it needs to be able to contribute to organization design and change management. As far as its own organization is concerned, it needs to be organized to carry out the basic

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administrative functions as well as being a strategic partner. HR is not in a position to completely abandon the basic transaction responsibilities associated with workforce management. Somehow, either through outsourcing or information technology, these need to be done in an effective and cost-efficient manner. The HR function also has to be structured and staffed so that it participates in decisions concerning strategy development, strategy implementation, change management and organizational effectiveness.

Given the amount of attention to the importance of HR becoming a strategic partner, it is surprising that recent studies have found relatively little change in its activities and structure (e.g., Lawler & Mohrman, 2000b). It is true that information technology may be able to free up HR from some of its routine tasks, and there is certainly evidence that HR is making greater use of information technology. However, it is not clear that HR is becoming more of a strategic partner. It is also true that information technology offers the potential for HR to take advantage of databases and powerful analytic tools to determine how useful HR policies and practices are and to contribute to the understanding of what business strategies can be executed. But the question remains unanswered as to whether the HR function is capable of identifying and implementing the changes that are required to support the new roles and capabilities that their businesses need.

In our 1998 round of this study, we found that there may be more discussion of change than actual change (Lawler & Mohrman, 2000a; 2000b). We found relatively little evidence to suggest that HR was making the structural and competency changes that it needs to provide increased value-adding contribution to the business. A great deal has changed in the global business environment since our last study, but has the HR organization? In the present study, our focus is on:

1) whether HR is becoming more of a strategic partner

2) what leads to HR becoming more of a strategic partner

3) whether spending more time on strategic partner activities is associated with the HR function being more effective.

The Study

Our 2001 study of the HR function is similar to our 1995 and 1998 studies. Surveys were mailed to medium and large U.S. companies that are either sponsors of the Center for Effective Organizations at the University of Southern California or members of The Human Resource Planning Society, or both. The surveys were filled out by HR leaders who were in a director-level or above position with corporate-wide visibility to the HR function.

Sample

In 2001, 150 usable surveys were received for a response rate of 15.5 percent. In 1995 we had a slightly higher response rate and a sample of 130 companies. The responses came from companies from a variety of industries. 82.3% of the companies had some international operations; on average, 25.6% of employees and 17% of HR professionals were located outside of the U.S. These findings must be considered as characterizing large companies (average number of employees for corporations in the sample is 21,023).

In the firms studied, the average number of employees in the HR function was 234. The ratio of HR employees to all employees was 1 to 90. This represents little change from the 1998 ratio of 87 to 1 and the 1995 ratio of 92 to 1. The 2000-2001 BNA survey reports a ratio of 100 to 1, which is about the same ratio they have found for the last 10 years. Thus, as of 2001, there was no evidence of a shrinkage of the HR function.

Survey

The 2001 survey was an expanded version of the 1998 survey. It covered eleven general areas:

1. General descriptive information about the demographics of the firm and the HR function.

2. The organizational context that the HR function serves, including its broad organizational form and the amount and kinds of strategic change and organizational initiatives being carried out by the company.

3. The changing focus of the HR function measured in terms of how much time it is spending in different kinds of roles compared with five to seven years ago.

4. The extent of emphasis that a number of HR activities are receiving.

5. Human resources' use of various organizational practices to increase efficiency and business responsiveness and the extent to which human resources is investing in a number of strategic initiatives to support strategic change.

6. The use of shared service units and their effectiveness.

7. The use of outsourcing and the problems that have been encountered.

8. The use of information technology and its effectiveness.

9. The changing skill requirements for employees in the HR function and satisfaction with current skills.

10. Talent strategies.

11. The perceived effectiveness of the HR function.

    For a complete copy of the survey, see Lawler and Mohrman (2003).

Analyses

In order to give a dynamic picture illustrating the amount of change in the past 6 years, data will be compared from all three rounds of the study (1995, 1998 and 2001). For the purpose of examining the strategic partner role in greater depth we will concentrate largely on cross-sectional analyses of the 2001 data.

Our statistical tests will primarily be analysis of variance (ANOVAs) comparing the mean scores among a number of predictor and outcome variables for groups of companies that play different roles in business strategy. In particular, we will focus on the pattern of activities and outcomes that differentiate HR functions that are full strategic partners from those who play lesser roles in strategy.

Is HR's Strategic Partner Role Increasing?

Perhaps the best way to determine whether HR is becoming more of a strategic partner is to look at how much time the HR function spends on its various activities. Clearly, to be a strategic partner, the HR function must go beyond delivering services, maintaining records and auditing. It needs to spend time being a member of the management team, doing strategic HR planning, and making contributions to organization design, strategy development, and strategic change.

We asked a question in our 1995, 1998, and 2001 surveys about how time is allocated in the HR function. The results, presented in Table 1, show a surprising stability. Given the immense amount of attention to the need for HR to change its role in the organization, and the amount of change in the business world, it is surprising that there is very little change from 1995 to 2001. The expected increase in strategic business partnering simply is not reflected in these

data. It seems that instead of responding to the calls for change, HR has responded by maintaining the status quo.

Somewhat more positive data about changes in the HR function are provided in Table 2. In both 1998 and 2001, we asked a question concerning Human Resource's role in business strategy. As can be seen in Table 2, in 2001 41% of executives said that they were a full partner in the business strategy process, a significantly higher number than the 29% who said this in 1998. There is no obvious explanation for why this difference exists, since when we compare 2001 with 1998 with respect to time spent (see Table 1), there is no significant difference. One possible explanation is that HR executives are in fact being asked into more strategy discussions and are playing more of a strategic partner role, but that this is happening without changes in the overall allocation of time in the function to being a strategic partner.

The fact that only 41% of HR organizations report in 2001 that they are full partners indicates that there is plenty of room for improvement with respect to the development of HR as a strategic business partner. The data do suggest that in most cases HR at least has some role in strategy. In only 3% of cases does HR have no role in the strategy process.

HR as a Strategic Partner

We next examine the factors that are associated with HR being a strategic partner. In our analyses we will use four categories of involvement in business strategy that are in Table 2 as our measure of strategy involvement and determine how different practices are related to the degree to which HR is a business partner.   Although our analyses are cross-sectional, and we cannot speak of causality with any degree of certainty, our goal is to depict the constellation of factors that constitute being a strategic partner.

Changes in HR Focus on Various Functional Activities

Are there activity changes within HR that are particularly likely to be associated with HR being a strategic partner? Table 3 reports the results from a question that asked how much HR's focus on various functional activities has increased or decreased. When statistically analyzed, these activities fell into five factors and two items that did not factor with any others.

The results in Table 3 show some clear differences in how HR's focus has changed in those organizations where HR is a full business partner. Most dramatic is the increased attention to a cluster of activities including planning, organization design, and organization development. Analysis of variance shows that the focus on these activities has increased significantly more in those organizations in which HR is a full partner compared to those in which it is not. Similarly, the attention to employee development activities, and especially to career planning and management development, have increased significantly more in the companies that are full partners. Although there has been some increase in the focus on some of the more traditional HR functional activities such as recruitment, selection, compensation and benefits, these changes are not statistically more likely to occur in businesses that are strategic partners. These findings make a compelling argument for the view that being a strategic partner goes hand in hand with spending more time on organization planning, design, and development, and spending more time fitting the development activities of the organization to the business needs of the organization.

It is impossible to tell from our data whether doing more work on organization design and development leads to HR being more of a strategic partner, or whether the reverse holds; that is, once HR becomes a full partner it is asked to do more organization design and development work. Our belief is that both of these probably occur, that is, when HR shows more interest in

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and capability in organization development, it gets more involved in the strategy process, which leads to it doing more organization design and development work. In short, a type of spiral develops in which more of one leads to more of the other. Regardless of the exact causality here, the evidence is clear that being a full partner involves being increasingly active in the organization design and development arena.

HR Information Systems and Strategic Partnering

The most obvious connection between HR information systems and strategic partnering is the potential to free up time in the HR organization. If transactions can be done on an eHR system, self-service is possible and much of the transactional work HR does can be eliminated. For this reason alone, greater use of information technology may be associated with HR being more of a business partner. There is also a second reason that was mentioned earlier. With HRIS systems it is much easier for HR to gather strategic data and analyze them in ways that can contribute to forming and implementing business strategy.

Table 4 presents data on the relationship between the use of HRIS systems and the degree to which HR is a strategic partner. It shows that HR is most likely to be a full partner in the strategy process when a completely integrated HRIS system exists. However, it also shows that having a completely integrated HRIS system does not ensure that HR will be a strategic partner. In 46% of companies that have a completely integrated HRIS system, HR is not a full strategic partner. Eighteen percent of companies with a fully integrated HRIS don't even have an input role into strategy. Conversely, in a number of companies with only partial automation of processes, HR nonetheless considers itself a full strategic partner.

Obviously, having an advanced HRIS system is a building block and an aid in becoming a strategic partner, but it is not a guarantee of strategic partnership. Some companies may be

investing in IT simply to reduce transaction costs and reduce the size of HR, not as a way to make it a strategic partner.

HR Organizational Approaches

A number of changes in the structure and processes of the HR organization have been advocated in order to increase its responsiveness and ability to be a business partner. The argument is that HR is better positioned to be a strategic partner if it provides the right combination of transactional services and high-level strategic input. It also needs to strike the appropriate balance between centralized services and deployment of HR support to the business units. Finally, it needs to bring together the right combination of knowledge through teams and the rotation of people to address complex human resources issues.

Table 5 presents the organizational approaches that were studied. They clustered into five factors. A number of significant relationships exist between how HR is organized and the degree to which it is a strategic partner. The use of teams, particularly the use of joint line-HR teams to develop HR systems and policies, is strongly related to HR being a strategic partner. This finding undoubtedly reflects the fact that one of the best ways for HR to operate as a strategic partner is to be involved in the development of HR systems that support the implementation of the business strategy. Often, the best way to create this kind of involvement is to utilize task teams that have both line and HR staff members.

Structuring the HR function into a small corporate staff with HR professionals and managers in the business is significantly related to HR being a full strategic business partner. This finding fits well with the argument that in order to be a strategic partner, the HR function has to be close to the business. Indeed, it is hard to imagine how HR can be a truly strategic partner unless it is close enough to understand the business and attend key meetings and events.

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There is some evidence that improving the transactional operation of HR can in fact support HR being more of a business partner. The one activity that is statistically significant has to do with line managers doing more self-service. This obviously has the potential to free up HR time, but it may have its greatest impact because it involves line management in HR processes. This in turn can lead to them appreciating the importance of HR practices.

Finally, the rotation of people is strongly related to HR being a business partner. There are a number of reasons for this, but perhaps the major one is the educational development that occurs when individuals rotate within the HR function and into and out of the HR function. Without knowledge of the multiple activities that go on in HR, it is very difficult for HR managers and executives to bring a full picture of the HR function to any strategic function. Beyond that, unless HR executives have had some experience in business roles, it may be difficult for them to understand the business well enough to act as a strategic partner when it comes to HR system design and strategy development. Thus a strong argument can be made for developing individuals who have HR generalist skills, because they have been there, and who understand the business, because they have been there.

Background of the HR Executive

Seventy-five percent of the top HR executives in the companies studied came up through the HR function. In the other 25 percent, the top executive came from functions such as operations, sales and marketing, and legal. This number is the same one we found in 1998 and slightly higher than the 21 percent we found in 1995. Hence, a substantial number of firms continue to assign executives to lead the HR function who are not trained as HR executives.

One possible reason for putting a non-HR executive in charge of HR is directly related to HR being a strategic partner. It is quite possible when an organization wants HR to be more of a

strategic partner, it feels that this can only happen if the person in charge of HR has a good understanding of the business. Thus, they move a non-HR executive in to head HR, with the expectation that this will lead to HR being more of a full partner in business strategy development and implementation. Table 6 shows how frequently HR is a strategic partner when it is headed by someone with a human resources background and when it is headed by somebody without an HR background.

Surprisingly, the results are just the opposite of what might be expected. HR is more likely to be a strategic partner when the head of HR has an HR background. One explanation for this may relate to the HR head having an in-depth understanding of HR systems. This may well be required in order for the head of HR and the HR function to play a full-partner role in world business strategy. Simply understanding the business is not enough. It most likely takes a good understanding of both the business and of the multiple facets of HR. The results in Table 5 suggested that rotation within HR was more prevalent in companies with full partnership, implying that experience in multiple aspects of HR may be critical to such a partnership. Although at first glance it may seem that it is easy for someone with a business understanding to develop a good understanding of HR, in reality this represents a significant underestimate of the complexity of the HR field. Someone new to HR may truly have trouble contributing an HR perspective to business strategy development and implementation and thus be a poor business partner.

The fact that non-HR executives are less likely to be strategic partners when they head the HR function raises the question of why they are in that position at all. A number of explanations are possible. It may be that, in fact, they have been moved in to make HR a strategic partner. Indeed, it may be that outsiders are particularly likely to be moved into that

position when HR is functioning poorly and is a long way from being a strategic partner. Out of frustration and in the hope of changing HR, an outsider is put in charge. Finally, of course, it may be that non-HR individuals are moved in to head HR for their own development or because it is a convenient place to put someone who is not performing well in another function. Unfortunately, putting a senior executive in the HR function who is not performing well makes it almost certain that the HR function will not be a strategic partner and indeed, it's likely to greatly weaken its position in the organization.

HR Strategic Partnering and Strategy

It is quite possible that the role of HR in an organization is at least partially determined by the business model of the organization with respect to how it expects to gain a competitive advantage. Clearly there may be much more demand for HR to be a strategic partner in those organizations that are counting on human and intellectual capital to be a competitive advantage.

As part of our survey, we asked about the extent to which each of four strategic business focuses and three change initiatives were present in the company. This allowed us to determine the kind of business model and change efforts that were going on in each of the organizations studied. Table 7 shows how these four strategic focuses and three change initiatives are related to the strategic role of HR. The results paint a clear picture.

When organizations have a strategy that focuses on knowledge and information, HR is much more likely to be a full strategic partner. This is hardly surprising and undoubtedly reflects the fact that knowledge and information strategies inevitably lead to a focus on human capital and the degree to which the company possesses the knowledge and information it needs in order to implement the strategy. In essence, it opens the door for HR to be a full strategic partner.

The strategic focus on quality and speed also shows a significant relationship to HR being a full partner. Developing quality and speed in an organization usually requires significant changes in how human capital is developed and utilized. Most quality programs, for example, place a heavy emphasis on training and development of individuals as well as a change in a number of systems and organization design features. Thus, it is not surprising that when this is an important agenda item, HR is much more of a strategic partner.

The results for change initiatives are similar to the results for strategic focuses. When change is focused on competency and knowledge management, HR is much more likely to be a strategic partner. This is hardly surprising since competency and knowledge management should be a major area of expertise for the HR function. Thus any organization that is trying to increase competency and knowledge would be expected to rely on HR at least in implementing the strategy. In addition, competency and knowledge change initiatives are more likely to occur if HR is influencing strategy. This is especially true if HR can provide evidence that organizational performance and the ability to execute strategy are improved by competency and knowledge management change initiatives.

HR Effectiveness and Strategic Partnering

One reason we focused on strategic partnering in our 2001 study was that in our 1998 study we found a significant relationship between business partnering and the effectiveness of the HR organization. In both 1998 and 2001 we measured the effectiveness of the HR organization by asking respondents to rate a number of areas of HR effectiveness. Table 8 provides a list of these areas and shows that they divided into three effectiveness factors. It also shows the effectiveness of the scores when HR is a full business partner and when it is not.

The results for the general HR effectiveness items in Table 8 consistently show that being a full partner is associated with being more effective in most areas of HR performance. Not surprisingly, effectiveness at helping to develop a business strategy is very strongly related to being a strategic partner. Obviously it is hard for HR to be effective at developing a business strategy if it is not a full strategic partner. Other interesting relationships include those having to do with developing organizational skills and capabilities, and change management. Effective performance in these two areas should be aided by HR being a strategic partner and should aid HR in becoming a strategic partner. In the absence of being a strategic partner, HR may not be fully informed about what is needed and may not be able to effectively influence what is realistic in terms of the development of skills, capabilities, and change.

Tailoring HR practices to fit business needs and helping shape a viable employment relationship for the future are also rated as more effective in firms where HR is a strategic partner. Interestingly, this is not true for effectiveness in providing HR services and being an employee advocate, reinforcing the point that these traditional HR focuses are not centered on being a business and strategic partner. Effectiveness at managing outsourcing and operating shared services also are not related to the degree to which HR is a full partner. This reinforces earlier findings that these organizational approaches are unrelated to the strategic partner role, even if organizing in this manner may free up resources to apply to more strategic activities.

Our 1998 survey found a relationship between how time is spent by HR and the effectiveness of the HR organization. Undoubtedly the major finding in that study was that the more time the HR function spent on being strategic business partners, the more effective it was. Table 9 presents the data from our 2001 survey. The results here are very similar to those found in 1998. There is a negative relationship between the amount of time spent on maintaining

records, auditing and controlling, and providing services, and effectiveness. On the other hand, there is a strong positive relationship between the amount of time spent on strategic business partner activities and HR's overall effectiveness as well as with respect to the HR effectiveness items. The results in Tables 8 and 9 combined present a strong case that being a strategic business partner is associated with the effectiveness of the HR function.

Becoming a Strategic Partner

Figure 1 depicts the constellation of factors that are more likely to be present in companies where HR plays a strategic partner role. These factors suggest the following very specific steps that companies can take to increase the strategic value-add of HR:

1) Highlight the knowledge and competency aspects of the business strategy.

Many companies in the knowledge economy rely on the processing of knowledge by skilled knowledge workers—on its development and utilization of human capital. On the other hand, many do not explicitly identify their competitive reliance on these resources, nor think of their strategy as maximizing the value they can derive from knowledge. The HR function can help make this reliance and this perspective obvious to line managers. Doing this will enhance the value it contributes and help it gain a partnership seat at the strategy table.

2) Increase HR's focus on Planning, Organizational Development and Organizational Design.

The HR function is theoretically well situated to see the organization as a complex system where the development and management of its human capital is intricately intertwined with its strategy and design. By overlaying a strategic perspective on the development of HR systems, and by

increasing the focus on developing organizational competencies and capabilities, HR can play a unique role in the development of strategy and strategic capabilities.

3) Expand the vision of and application of eHR capabilities beyond process improvement and efficiency to include a focus on strategic analyses that can turn data into strategically valuable information.

The development of eHR systems offers an unprecedented opportunity to examine what HR approaches and factors make a difference in business performance. However, this will remain an unused potential unless it becomes a dedicated focus of the HR function.

4) Increase the business knowledge of HR professionals and their link to the business.

In today's world, addressing critical competitive issues requires the combination of various specialized areas of knowledge and deep expertise. Rotation of HR professionals within HR assures a broad understanding of HR, and placement of professionals close to the business and deploying them to joint line/HR task teams allows them to develop greater understanding of the business and to combine their expertise with the expertise of the line. Although HR professionals who have the opportunity to play a strategic role are more likely to develop the necessary skills to do so, HR functions should also focus on providing their HR professionals with many different development opportunities, including job rotations and special assignments as well as formal educational experiences that broaden and deepen their knowledge and experience bases relevant to being a strategic partner. However, we do not see skills as the only or perhaps even the major barrier to strategic partnership. Rather, we feel that the list of action steps provides a broad menu of steps that must come together in order to craft a meaningful strategic partnership role.

5) Ensure that the head of HR has the deep HR experience required to be a Strategic Business Partner.

The head of HR must fully understand the complexity of the various aspects of human capital management in order to bring HR to the strategic planning table, and to effectively integrate HR activities with the business oriented perspectives. Whereas there are other people at the table well versed in the business perspective, the HR VP is likely to be the only person who is a deep expert in HR.

Conclusion

The emerging consensus in the HR literature is that the most effective HR departments are those that add value by playing a business partner role. We agree with this point, but feel it doesn't go far enough. Our results show the greatest benefits occur when HR is a strategic business partner that fully participates in both the development and implementation of strategy.

The knowledge economy, with the proliferation of companies that rely on knowledge based competitive strategies, offers an opportunity for HR departments to fundamentally alter their role in the corporation and become true value-adding strategic partners. Advanced IT-based systems can off-load transactional tasks, freeing up HR professionals for more value-adding roles. More importantly, they offer the *potential* for HR to collect and analyze data to yield knowledge about the effectiveness of various HR approaches and about the feasibility of various strategic paths given the human capital of the firm.

Developing a true partnership requires the HR function to place a greater focus on planning, organization design, and development. It also requires greater use of organizational approaches whereby HR professionals operate in proximity and partnership with the line and

develop a broad and deep understanding of HR issues. Nowhere is this dual need for deep HR knowledge and for proximity to the line more important than in the top HR role, where this study has shown that putting line managers in charge of HR may work against a strategic partnership role. Partnership also requires increasing the trust in line managers and transferring HR accountability to them in many areas where HR has previously exercised control and provided service. Thus, knowledge barriers exist on both sides: HR must learn more about the business, and the line managers must become more proficient at managing their human resources. Most importantly, there must be forums, such as teams, for combining knowledge to address complex business and HR issues and to deal with the true interdependence of these issues.

It is disappointing that this third wave of our study of HR organizations finds once again that there has been very little change in the actual practices in the HR organization and in the way in which HR spends its time. The core competency and orientation of most HR functions is still in traditional HR activities, activities which our study and others show to be necessary but not sufficient for the HR function to be perceived as a valuable partner in the business. Given the opportunities and challenges posed by the knowledge economy and the capabilities inherent in sophisticated IT technology, it is clear that strategic human resource work needs to be done by someone. Our hope is that it will be done by the HR function, although that is certainly not a foregone conclusion.

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York: The Human Resource Planning Society.

Figure 1

Factors Associated with HR as a Strategic Partner

Knowledge & Competency Based Company
Strategies and Initiatives, & Speed and Quality Strategies

Integrated HRIS
Use of IT
for Strategic Analysis

Increased HR focus on:
• Planning
• Organization Design
• Development

Strategic Partnership

Organization approaches
that blur boundaries:
• HR\Line management
  teams
• HR deployed to the
  businesses
• Rotation within HR
• Transfer human resource
  management tasks to the
  line

Head of HR
with HR Background

Table 1. Percentage of Time Spent on Various Human Resources Roles

	1995	1998	2001
Maintaining Records Collect, track, and maintain data on employees	15.4	16.1	14.9
Auditing/Controlling Ensure compliance to internal operations, regulations, and legal and union requirements	12.2	11.2	11.4
Human Resources Service Provider Assist with implementation and administration of HR practices	31.3	35.0	31.3
Development of Human Resources Systems and Practices Develop new HR systems and practices	18.6	19.2	19.3
Strategic Business Partner Member of the management team. Involved with strategic HR planning, organizational design, and strategic change	21.9	20.3	23.2

(Means are of percentages)

Table 2. Human Resources' Role In Business Strategy

	Percent Responding	
	1998	**2001**
No Role	4.2	3.4
Implementation Role	16.8	11.6
Input Role & Implementation	49.6	43.8
Full Partner in Development & Implementation	29.4	41.1

Table 3. Activity Changes Over the Past 5-7 Years for Companies with Different Strategic Partner Roles

	No Role	Implementation Role	Input Role	Full Partner
DESIGNING & PLANNING ORGANIZATIONAL DEVELOPMENT	**3.0**	**3.6**	**3.7**	**4.1*****
HR Planning	3.6	3.6	4.0	4.2*
Organizational Development	3.2	3.6	3.7	4.2**
Organizational Design	3.0	3.6	3.5	4.0**
Strategic Planning	2.2	3.5	3.7	4.2***
COMPENSATION & BENEFITS	**3.8**	**4.0**	**3.7**	**3.7**
Compensation	4.0	4.1	3.9	3.9
Benefits	3.6	3.9	3.5	3.6
LEGAL & REGULATORY	**3.1**	**3.0**	**3.1**	**3.1**
Employee Record Keeping	2.8	2.8	2.7	2.7
Legal Affairs	3.4	3.4	3.4	3.3
Affirmative Action	3.4	2.9	3.0	3.1
Employee Assistance	2.8	2.9	3.2	3.3
EMPLOYEE DEVELOPMENT	**3.0**	**3.4**	**3.6**	**3.8***
Employee Training/Education	2.6	3.5	3.7	3.7
Management Development	2.8	3.5	3.8	4.0*
Performance Appraisal	3.6	3.8	3.7	3.7
Career Planning	2.4	2.9	3.2	3.6***
Competency / Talent Assessment	3.8	3.4	3.6	3.8
RECRUITMENT & SELECTION	**3.3**	**3.5**	**3.7**	**3.9**
Recruitment	3.2	3.5	3.8	3.9
Selection	3.4	3.4	3.6	3.9
HR INFORMATION SYSTEMS	**4.0**	**4.2**	**4.0**	**4.0**
UNION RELATIONS	**3.4**	**2.5**	**2.8**	**2.5**

Scale response: 1 = Greatly Decreased, 3 = Stayed the Same, 5 = Greatly Increased

Analysis of variance among roles: $*\,p \leq 0.05$ $**\,p \leq 0.01$ $***\,p \leq 0.001$

Table 4.   State of HR Information Systems in Companies with Different Strategic Partner Roles

	Percent Responding			
	No Role	Implementation Role	Input Role	Full Partner
Completely Integrated HR Information System (7.6% of companies)	9.1	9.1	27.3	54.5
Most Processes are Automated but Not Fully Integrated (35.9% of companies)	1.9	11.5	50.0	36.5
Some HR Processes are Automated (48.3% of companies)	0	11.9	43.3	44.8
Little Automation Present in HR Function (6.9% of companies)	22.2	11.1	33.3	33.3
No Automation Present (1.4% of companies)	0	50.0	50.0	0

Table 5. Use of Various HR Organizational Approaches in Companies with Different Strategic Partner Roles

	No Role	Implementation Role	Input Role	Full Partner
OUTSOURCING	**2.1**	**1.9**	**2.1**	**2.3**
Transactional work is outsourced	2.8	1.9	2.2	2.6*
Areas of HR expertise are outsourced	1.4	1.8	2.0	1.9
TEAMS	**2.3**	**3.1**	**3.2**	**3.5***
HR teams provide service and support the business	2.6	3.3	3.4	3.7
Corporate centers of excellence	2.4	2.9	3.0	3.3
HR systems and policies developed through joint line/hr task teams	1.8	3.1	3.1	3.6***
DECENTRALIZATION	**2.9**	**2.8**	**3.1**	**3.4**
Decentralized HR generalists support business units	4.0	3.9	3.8	4.3
Very small corporate staff – most HR managers and professionals are out in businesses	2.2	2.4	3.0	3.3*
HR practices vary across business units	2.4	2.3	2.7	2.6
RESOURCE EFFICIENCY	**2.6**	**2.3**	**2.5**	**2.8***
Administrative processing is centralized shared services	3.8	3.5	3.3	3.6
Self-funding requirements exist for HR services	1.6	1.6	1.8	2.1
Some activities that used to be done by HR are now done by line managers	2.0	2.0	2.5	2.9**
Some transactional activities that used to be done by HR are done by employees on a self-service basis	2.8	2.0	2.4	2.7
ROTATION	**1.5**	**1.8**	**2.1**	**2.4***
People rotate within HR	1.8	2.2	2.7	3.1**
People rotate into HR	1.2	1.6	1.6	2.0
People rotate out of HR to other functions	1.6	1.5	1.8	2.0

Means; Response scale: 1 = Little or No Extent; 2 = Some Extent; 3 = Moderate Extent; 4 = Great Extent; 5 = Very Great Extent

Analysis of variance among roles: $*\, p \leq 0.05$ $**\, p \leq 0.01$ $***\, p \leq 0.001$

Table 6. Strategic Partner and Background of HR Head				
	Percent Responding			
Background of HR Head	**No Role**	**Implementation Role**	**Input Role**	**Full Partner**
Human Resource Management	3.6	10.0	41.8	44.5
Other	2.8	16.7	50.0	30.6

Table 7. Strategic Partner and Strategic Focuses and Change Initiatives				
	No Role	**Implementation Role**	**Input Role**	**Full Partner**
STRATEGIC FOCUSES				
Growth	2.5	2.3	2.9	3.0
Core Business	2.0	2.8	2.4	2.6
Quality & Speed	2.9	3.3	3.7	3.8*
Knowledge & Information Based Strategies	2.9	3.6	3.7	3.8*
CHANGE INITIATIVES				
Restructuring	3.7	3.4	3.2	3.4
Organizational Performance	2.1	2.9	2.9	3.1
Competency & Knowledge Management	1.9	2.6	2.8	3.3*

Means; Response scale: 1 = Little or No Extent; 2 = Some Extent; 3 = Moderate Extent; 4 = Great Extent; 5 = Very Great Extent
* Significant difference ($p \leq .05$) among roles.

Table 8. Relationship of Type of Strategic Partner to HR Effectiveness		
	MEANS	
	Not Full Partner	**Full Partner**
Number of Respondents	*86*	*60*
HR EFFECTIVENESS	6.0	6.8*
Providing HR Services	7.2	7.5
Providing Change Consulting Services	5.4	6.1*
Being a Business Partner	6.0	6.9*
Developing Organizational Skills and Capabilities	5.5	6.5*
Tailoring Human Resource Practices to Fit Business Needs	6.4	7.0*
Helping Shape a Viable Employment Relationship for the Future	6.0	6.9*
Helping to Develop Business Strategies	5.2	6.6*
Being an Employee Advocate	7.0	7.5
Change Management	5.7	6.5*
OUTSOURCING EFFECTIVENESS	**6.1**	**6.4**
Managing Outsourcing of Transactional Services (e.g.. Benefits)	6.3	6.7
Managing Outsourcing of Hr Expertise (e.g. Compensation Design)	5.9	6.1
SHARED SERVICES EFFECTIVENESS	5.7	5.8
Operating Centers of Excellence	5.5	5.8
Operating Shared-Service Units	6.1	6.0

* Significant difference ($p \leq .05$) between the two categories.
[1] Score for all items.
Response scale: 1 = Not Meeting Needs to 10 = All Needs Met

Table 9. Relationship of Time Spent on Human Resources Activities to HR Effectiveness					
	Time Spent:				
	Maintaining Records	Auditing/ Controlling	Providing HR Services	Developing HR Systems	Strategic Business Partnering
OVERALL EFFECTIVENESS	**-.23***	**-.19**	**-.09**	**.03**	**.29****
HR EFFECTIVENESS	**-.15**	**-.11**	**-.16**	**-.03**	**.32*****
Providing HR Services	-.23**	-.02	.04	-.11	.17*
Providing Change Consulting Services	-.19*	-.06	-.15	.03	.28***
Being a Business Partner	-.15	-.11	-.17*	-.08	.35***
Developing Organizational Skills and Capabilities	-.08	-.03	-.19*	.01	.24**
Tailoring Human Resource Practices to Fit Business Needs	-.15	-.12	.01	-.01	.13
Helping Shape a Viable Employment Relationship for the Future	-.20*	-.12	-.12	.04	.28***
Helping to Develop Business Strategies	-.00	-.18*	-.29***	.00	.37***
Being an Employee Advocate	-.07	-.10	-.08	-.04	.19*
Change Management	-.12	-.05	-.18*	-.04	.30***
OUTSOURCING EFFECTIVENESS	**-.11**	**-.15**	**-.10**	**.15**	**.14**
Managing Outsourcing of Transactional Services (e.g.. Benefits)	-.04	-.13	-.09	.06	.13
Managing Outsourcing of HR Expertise (e.g. Compensation Design)	-.14	-.12	-.08	.16	.13
SHARED SERVICES EFFECTIVENESS	**-.13**	**-.15**	**.01**	**-.01**	**.14**
Operating Centers of Excellence	-.16	-.11	-.01	-.05	.18
Operating Shared-Service Units	-.08	-.14	-.02	.03	.11
Zero order correlation: * $p \leq 0.05$ ** $p \leq 0.01$ *** $p \leq 0.001$					