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**TRANSFORMING THE HUMAN  
RESOURCES FUNCTION**

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## **Transforming the Human Resources Function**

The emergence of the global economy, overcapacity in many industries, monumental improvements in the power of computer and telecommunications tools, and the emergence of the knowledge economy are among the forces that are resulting in fundamental change in the design of organizations. A whole constellation of organizational features -- vertical integration, managerial control, stability, and two-way loyalty between organization and employee -- that fit in a benevolent, relatively stable environment are giving way to new organizational designs for competitiveness, flexibility, continuous improvement, and self-management. Organizations are downsizing, reshaping themselves, outsourcing, joint venturing, merging, divesting and partnering in order to improve their competencies and capabilities.

The preeminent criterion for all organizational design decisions is contribution to the accomplishment of organizational strategy. As strategies have become more complex, global, and developed, this has led to the reexamination of organization designs at all organization levels: corporations, business units, work units, work processes that cut across the organization and jobs. Within the same organization, different units are being constructed with very different logics, each optimizing the value that it adds by tailoring its design features to the work it does.

The traditional corporate design framework has been taken apart and put back together again in many organizations; new organizational “architectures” have resulted (Nadler, Gerstein and Shaw, 1992; Galbraith, Lawler and Assoc.,1993). In that process, a variety of new organizational forms has emerged. Vertically integrated corporations are being transformed by outsourcing and networking. A proliferation of roles and structures designed to integrate laterally across the organization are being developed (Galbraith, 1993). Self-contained teams and business units are being established to facilitate focused cross-functional decision making at lower levels in the organization (Lawler, Mohrman and Ledford, 1995).

This organizational redesign is driving fundamental change in the work lives of people. Lifetime employment is dead. Organizations are using a shifting array of workforces, including a core workforce, contractors, and contingent, part-time or temporary workers (Handy, 1991; Rousseau and Wade- Benzoni; 1995; Hall and Mirvis, 1995). As the workforce increasingly operates through a series of dynamic structures, work teams, task teams, and projects, the concept of “job” is being replaced by rapidly shifting work assignments (Mohrman, Cohen, and Mohrman, 1995). Careers are becoming portfolios of experiences that span functions and companies. In short, an organization is created in which the human resources management practices of the past no longer fit. Organizations are faced with a situation that cries out for new solutions to the thorny challenges of integrating business and people needs.

In traditional bureaucratic organizations, human resources professionals have, for decades, created and administered the systems--career development, training, selection and rewards--that define the key parameters of the stage on which employees have enacted

lifelong employment roles and careers. The human resources function added value by creating systems which produced bureaucratically correct behavior as well as the predictable and orderly development of people and their careers. Not surprisingly, it gained a reputation as the bastion of the status quo.

But the era of traditional bureaucratic organizations is over, stability needs to be replaced by change, innovation, and new organizational designs. This represents both a major threat and a major opportunity for the human resources function. It can deliver immense value to corporations and to society by helping them navigate the uncharted waters of the new era. If it can create human resource management systems that fit the new organization designs that are appearing, it can not only survive, it can thrive because it will make a major contribution to organizational effectiveness. If it cannot, it will virtually disappear because the traditional human resources activities that have been its reason for being will be either eliminated or outsourced.

### **People Management Challenges**

An important key to successfully creating new human resources systems concerns dealing with the paradox that just as employees can expect less loyalty from companies, companies are more than ever dependent on high level performance from them. To be effective, companies must have a supply of employees willing and able to play by the new rules of the game. In order to deal with this paradox, we believe the human resources profession must reshape itself, populate itself differently, and blur its mental and organizational boundaries. It must become a true business partner, that helps develop new approaches to selection, training, careers, rewards and information systems so that organizations can create strategically critical competencies and capabilities (Lawler, 1996).

Five interrelated challenges must be met in order for the human resources function to make this contribution; meeting each of them requires blending business and human resources concerns.

1. *Organizing for high performance*: Organizational restructuring should have as an ultimate outcome the most effective application of human resources to accomplish the mission of the organization. Such fashionable changes as creating small, flexible, cross-functional units, aligning people around value-adding tasks rather than “overhead” tasks, outsourcing, partnering, configuring work around core processes, and creating customer focus can only be successful if the conditions can be created that successfully transition the human resources of the organization and that create high levels of motivation. Legitimate concerns about the condition of the workforce left in place after rounds of downsizing, take aways, and restructuring exist and must be dealt with.

Sustained high performance will result only if new organizational forms result from a design process that takes into account the nature of the task and the nature of people. This demands deep knowledge of strategy and design, but also of the principles of motivation.

It will demand new and more varied approaches to goal-setting and rewards -- approaches that give people a meaningful stake in business performance.

2. *People Deployment.* The days of an orderly progression of people through a series of jobs in a functional hierarchy are gone. In new organization designs, people are as likely to move through a series of projects and rotational moves as through an orderly progression of jobs. People are likely to report to project heads who have little understanding of their knowledge base. Much work will be done by a “virtual” organization--assembled from across the organization, often informally, and possibly connected only electronically to complete a task (Savage, 1990). It may include part-time and temporary employees as well as partner company employees.

In such an organization, the challenge of deploying people with the right talents to different work opportunities is a daunting one, especially when combined with the need to develop people. Much of the development that takes place in an organization will occur through work or task assignments (Hall and Mirvis, 1995). As careers are increasingly enabled by the creation of a portfolio of experiences; people will be competing for work assignments rather than for promotions up a hierarchy. A completely new information infrastructure will be required to make possible the tracking and deploying of the human resources available to the company, and the efficient and effective movement of people between assignments (Lawler, 1996). In addition, new reward system approaches will be required in order to attract, develop and motivate this diverse, ever-changing workforce.

3. *Managing Organizational Competencies and Capabilities.* In the knowledge economy, the management of the competencies of the human resources and the capabilities of the organization are urgent tasks with survival implications (Ulrich and Lake, 1990). Knowledge and information is increasing exponentially, requiring the nurturing of the deep knowledge bases central to the task of the organization, and the development of enhanced analytic capabilities to exploit knowledge at a faster rate than competitors.

Dynamic environments, strategies, designs, and technologies mean that the need for competencies and capabilities changes, with some becoming obsolete, non-critical, or irrelevant. The new organization requires different and often more advanced skills in group process and organizational understanding. Training and other approaches to development, while more important than ever, are only a piece of this puzzle: the strategic “make-buy-partner” decisions will be important in securing human resources talent as in making product and service decisions.

4. *Managing Organizational Learning.* An issue closely related to the management of competencies is the management of organizational knowledge and learning. In the traditional organization, company specific and deep discipline knowledge are carried in people’s heads and shared through the interaction of people in discipline based departments and workgroups.

Organizations can no longer function competitively with informal approaches to knowledge and learning. Knowledge is too important an asset to not be actively managed.

Increasingly, it is dispersed in cross functional groupings and needs to be exploited across geographic bounds. Often people come in temporarily and need a quick way to gather information and get on board. Finding ways to embed knowledge in organizational processes and documents, to distribute information and know-how in readily accessible forms, and to disseminate knowledge and accelerate learning are key challenges facing organizations.

5. *Defining the New Psychological Contract.* The psychological employment contract reflects the individual's understanding of the employment relationship's terms, and the normative beliefs about what organizational members owe and are in return owed (Rousseau and Wade-Benzoni, 1995). Recent changes in organization strategies and designs have resulted in a major disruption of the prevailing psychological contract, but in most organizations, a new one has yet to be established.

We appear to be entering an era of highly differentiated psychological contracts. The contracts with different groups of employees--core workers, contract workers, and temporary and part-time workers--will each have to acknowledge the particular needs and motivation of that group of employees as well as the performance expectations of the organization. It seems clear that if new norms and expectations are not purposefully set, and new ways of contracting for work are not devised, behavior in the new organization may not meet its needs. It also seems clear that if the new contract does not give employees a stake in the performance of the organization, it is unlikely that the organization will achieve the levels of commitment found in the old era of two-way loyalty.

### **The New Role of the Human Resources Function**

None of the five challenges which we have identified fall cleanly and solely into the domain of the human resources function. They can only be addressed by dealing with the organization as a system, and by generating systemic solutions.

Human resource management practices are an integral part of all organizational systems and are integral to organizational capability development. For an organization's human resources to contribute to performance, human resources practices must fit with each other and with the strategy and design of the organization. In order for the members of the human resources function to impact performance, they must be knowledgeable about, have influence on, and be closely connected to the other organizational systems, as well as have a solid base of knowledge about human resource practices.

The human resources function must be able to operate at multiple levels of analysis: at the individual, work group, business unit, organizational, and cross-organizational levels. It cannot work exclusively at the level of the individual performer. It must contribute to the development and performance management of teams, product lines, divisions, joint ventures, consortia, and wherever else performance is strategically important. It also must operate with good understanding of industry trends and other competitive issues so that it can be a contributor to the business.

There is evidence that the evolution of the human resources function toward being a business partner is underway (Mohrman, Lawler and McMahan, 1996). In some corporations, it is an integral part of the management team, helping to develop strategy, improve organizational performance, and develop organizational capabilities that focus on speed and quality (Lawler, 1995; Evans, 1994).

Our view of the expanded role of the human resources function argues for it having a full partnership role in each of the following key business processes:

1. *Developing Strategy.* The human resources function should contribute to business strategy based on its knowledge of the competencies and capabilities of the organization, its understanding of the organizational changes that will be required to support different strategic directions, and its knowledge of the network of human resources available to the company and the opportunities or constraints inherent in that network.

2. *Designing the Organization.* The human resources function should be a repository of organizational design expertise, and play the role of internal consultants to the ongoing designing and redesigning that will characterize organizations and their sub-units as they continually modify themselves to achieve shifting strategies, new capabilities, and higher levels of performance.

3. *Change Implementation.* The human resources function should help the organization develop change management capabilities to weather the ongoing changes that will continue to be part of the environment. It should help with the ongoing learning processes required to assess the impact of change and enable the organization to make corrections and enhancements to the changes (Mohrman and Cummings, 1989). It should help the organization develop a new psychological contract, new career tracks, and ways to give employees a stake in the changes that are occurring and the performance of the organization.

4. *Integrating Performance Management Practices.* The human resources function should work with line managers to make sure that the performance management practices of the organization ( goal-setting, performance appraisal, development practices, and rewards) are integrated with each other and with the business management practices of the organization, and fit with the nature of the work. These processes must give individuals a stake in the performance of the business and they must measure and reward performance that supports the business strategy.

The human resources challenges being faced in today's restructured organizations demand a sophisticated business partner capability on the part of human resources professionals. Business partners need to be able to think systematically, and to be part of cross-functional organizational leadership teams that plan and manage the complex issues of rapid change. In this way they are a microcosm of the new organization; an organization in which more and more contributors will have to work cross functionally and will be expected to address business issues as well as their particular discipline's issues.

## **The New Human Resources Organizations**

It is beyond the scope of this paper to discuss in any detail what the human resources function must look like in order to play the business partner role we have defined. It is important, however, to mention some of the major characteristics which the human resources function must have in order to perform effectively. To be specific, human resources needs to:

- Be staffed by individuals who understand the business as well as change strategy.
- Be a valued member of management teams by contributing to business strategy and operations decision making.
- Effectively use outsourcers as a way to reduce the cost of the human resources function and draw on expertise that is not easily built into the organization.
- While using outsourcers when appropriate, retain control over setting the strategic direction for the organization's human resources systems.
- Have high levels of competency in designing human resources systems and in managing their implementation.
- Effectively utilize information technology to support the development of organizational capabilities and competencies and of individuals' careers.
- Develop computer-based human resources management systems which free the human resources organization from the day-to-day management and administration of the human resources in the organization.

Finally, we can foresee companies increasingly establishing alliances and partnerships with each other, with universities and with governments, for the purpose of providing services such as training and development, career and financial counseling, and for the development of portable benefits and other systems required to create a foundation for the new workforce. We expect that through inter-organizational mechanisms a new language will be established for describing careers and competencies, and new resources will become available to a workforce struggling to adapt to the changing employment landscape.

Our studies reveal that human resources departments are moving in these directions, although progress is not as dramatic as is indicated in reports that talk of transformational change and revolutionary change (Mohrman, Lawler and McMahan, 1996). Strategic redesign of companies is slowly driving change not only in human resources practices and services, but also in the way the human resources function is organized. Clearly one of the most important challenges every human resources function faces is to reinvent its structure and organization so that it can deliver in the future the kinds

of systems and business partnership behavior that will make its organization more effective.



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