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**NEW DIRECTIONS FOR THE HUMAN
RESOURCES ORGANIZATION: AN
ORGANIZATIONAL DESIGN APPROACH**

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NEW DIRECTIONS FOR THE HUMAN RESOURCES ORGANIZATION

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EXECUTIVE SUMMARY

This study examines the human resources function in 130 large companies to see whether changes in the business environment and strategy of the corporation are leading to changes in practice and organization of the human resources function. The underlying hypothesis is that as corporations adopt new strategies and redesign themselves to deal with the competitive pressures they are feeling, their human resources organizations will be redesigning themselves to support the changing business.

The findings are as follows:

- ◆ The corporations that we studied have in place significant but varying amounts of strategic redirection and organizational change initiatives. The organizational change initiatives fall into two categories: “work process” changes such as employee involvement, process and quality improvement efforts, and teaming; and “reshaping” initiatives, such as downsizing, delayering, and re-engineering. Company work process changes and the overall amount of strategic redirection are most related to changes in the human resources organization. Company reshaping is leading to particular human resources approaches such as outsourcing, decentralizing generalist support, and transferring tasks to the line.
- ◆ Companies that have multiple business units (especially those with multiple related businesses) are most likely to be applying new approaches to their human resources organization. Change in the human resources organization is particularly occurring in response to corporate strategic change in these companies. These are the companies most likely to be rethinking their business unit structure and the way support groups add value to the businesses.
- ◆ Human resources functions are adding responsibilities in the areas of business partnering and change management while not eliminating many of the traditional human resources focuses. In fact, the emphasis on aligning human resources practices with the business is increasing rather than decreasing the importance of traditional human resources functional expertise, and making necessary a new level of depth of functional expertise because it requires business-tailored approaches. There are changes occurring in how human resources is organized to deliver services and human resources is taking on a number of new initia-

tives. However, the actual human resources focuses and time investments seem rather constant and may reflect a set of human resources functional responsibilities that have to be accomplished regardless of business strategy and organizational initiatives.

- ◆ There is a decrease in the record keeping and administrative focuses of human resources.
- ◆ The role of human resources is shifting away from auditing and record keeping to business partnering.
- ◆ To date, automation seems to have played a relatively small role in enabling change in the human resources organization.
- ◆ The skill set required among the human resources population has increased dramatically, with the need for business skills increasing the most, but with most other skills not far behind. Human resources organizations are employing a variety of means to establish the right skill set, including extensive development, looking to the line to find candidates to fill human resources positions, replacing employees with obsolete skills, and outsourcing.

In sum, the findings provide a picture of how human resources departments in the early stages of organizational change are attempting to address the new performance requirements they are experiencing.

NEW DIRECTIONS FOR THE HUMAN RESOURCES ORGANIZATION

Much has been written about the changing requirements being placed on the human resources function. Organizations are adopting a number of strategic initiatives and fundamentally changing how they operate in order to adapt to their increasingly competitive and resource-constrained environments, apply new technologies and improving work processes, responding to an increasingly demanding customer base, and become global. These strategic initiatives entail fundamental change that has significant implications for the human resources of the company and for the human resources function.

It seems logical that human resources management practices should be an important part of the strategy of any large corporation. The annual reports of many corporations argue that their human assets are their most important assets. For many organizations compensation is one of the largest, if not the largest, cost. In service organizations it often represents 70 to 80 percent of the total cost of doing business. When training costs and other human resources management costs are added to compensation costs, the human resources management function often has responsibilities that affect a large portion of an organization's total expenditures.

But the cost of human resources is not the only important consideration for business. Even when human resources account for very little of the cost of doing business, they account for a high percentage of the revenue of the business. In essence, without effective human resources, companies are likely to have little or no revenue. Even the most automated production facilities require skilled, motivated employees in order to operate. There is evidence that senior managers are becoming more aware of human resources management issues and are assigning them more importance. One study, for example, found that in 86 percent of large companies, senior managers are now spending more time on human resources issues (Lawler, Cohen, and Chang 1993).

Role of Human Resources

Despite the compelling arguments that human resources management is a key strategic issue in most organizations, there is good reason to believe that, historically, human resources executives have not been and are not now strategic partners (Skinner 1981). Instead of being headed by strategic partners, the human resources function has been largely an administrative one headed by individuals whose roles are largely focused on cost control and administrative activities.

One recent study of large corporations and another study which focused on a cross-section of firms found that the major focus of most human resources functions was on controlling health care costs and on a host of other administrative issues (Lawler, Cohen, and Chang 1993; BNA 1994). Missing almost entirely from the list of issues were such key problems of organizational performance as improving productivity, increasing quality, and improving the ability of the organization to bring new products to market. Since it is likely that the organizations saw these areas as important, we must ask why they were not the most important ones for the human

resources executives. Most likely, the executives in these firms simply felt that the human resources function could not have an impact on these problems.

The inability of the human resources management function to influence strategy and contribute to its implementation often starts at the top of the organization where the chief human resources executive often is not part of the senior management team. Instead of reporting to the CEO, he or she reports to an executive at the next level of the organization. Because human resources management executives are not a part of the senior management team, they are not even present when many important strategy issues are considered.

There is evidence that this situation is changing and that the human resources function is beginning to redefine its role. A number of studies have investigated the changing directions of the human resources function (e.g., Conference Board Study by Csoka, 1995; the HRPS study by Eichinger and Ulrich, 1995; American Productivity and Quality Center study by Smith and Riley, 1994). They have focused on competencies for the human resources function and its executives, on the measures that are being taken to revitalize human resources functions, on the role of human resources in initiatives such as total quality management, and on the kinds of human resources services and programs that are required in the new organization. All these studies describe what is required for a new business partner role. An even more forward looking view of the human resources function of the future is presented in the Corporate Leadership Council's *Vision of the Future*, (1995). It projects a gutting of the human resources function as we know it today, the transfer of many human resources functions to the line, to outside vendors, and to high efficiency processing centers and an almost exclusive focus on business consulting and management of core competencies.

Describing the new human resources role and new competencies are only the first steps in transitioning to a strategic business partner. The human resources function has been organized to carry out an administrative function. Changing that role will require a different mix of activities and may require that the function be configured differently in relation to operating units in order to support changing business strategies and organization designs (Lawler, 1995). This study examines the extent to which human resources practice and organization design are actually changing. It examines the prevalence of various organizational practices that have been predicted to represent the new directions that human resources organizations will be taking to fit with the strategic changes that are occurring in the broader organizations they serve. It was conducted to get a sense for whether human resources organizations are, in fact, altering themselves in response to changing organizational strategies and designs, and whether these changes are uniform across organizations or whether they characterize some kinds of companies more than others.

FORCES FOR CHANGE: STRATEGIC CHANGE AND THE VALUE-ADDED ORGANIZATION

The forces of global competition have sent shock waves that have left very few organizations untouched (Lawler, Mohrman and Ledford, 1995). Survival in today's world demands that organizations develop the capabilities to compete on a large number of fronts: speed, cost, quality, service, technology, innovation and new products, to name a few. Organizations cascade through a seemingly endless series of "strategic initiatives", all of which are required to compete, with perhaps the only sustainable competitive advantage being the ability to organize effectively, respond to change, and manage well (Galbraith and Lawler, 1993). New organization designs are emerging to enable higher levels of performance in increasingly difficult environments.

The importance of organization design is increasingly being recognized. It is not enough to hire good people and expect them to perform competently. The design of the organization can facilitate or raise barriers to excellent performance. Two important trends have been noted in organization design (Galbraith and Lawler, 1993a): 1) There is a recognition that design is more than structure: that it includes elements such as management processes, rewards, people systems, information systems, and work processes. These elements must fit with the strategy and with one another in order for an organization to perform effectively (Waterman, 1982; Nadler, Gerstein, and Shaw, 1992); 2) There is acknowledgment that organization designs involve complex trade-offs and contingencies, and that one approach does not fit all. Many new approaches and organizational forms are springing up in order to deal with the complex requirements that organizations must address. Furthermore, in multi-business companies, there is recognition that different businesses exist in different markets and face varying requirements. Consequently, there is increasing variation in organization design within the same company (Galbraith, 1995).

Organizations are adopting design features with an eye to the "value" they contribute, i.e. how they help the organization accomplish its mission effectively (Galbraith, 1995). All parts of the organization, operating units and staff functions alike, are being redesigned in order to deliver higher value. Organizations are combining centralization and decentralization, trying to be big (coordinated) in functions such as purchasing when there is an advantage to being big; small (decentralized and flexible) in functions such as new product development when there are advantages to being small and agile. They are outsourcing when they can purchase high quality services and products more inexpensively or reliably than they can generate them internally (Arthur Anderson and EIV, 1995). They are functioning increasingly in a lateral manner, integrating across various parts of the organization, creating cross functional units to carry out entire processes, and collaborating with suppliers and customers. (Mohrman, Cohen, and Mohrman, 1995). Organizations are searching for ways to leverage across business units while at the same time setting up organizational and management approaches to allow optimal flexibility to various business units.

All of these trends have implications for the human resources function. Human resources is required to rethink its services and programs in order to address the competencies required in the new organization and in order to fit with the way business is being done. It faces a formi-

dable challenge to help organizations with the human issues raised by this kind of large-scale, strategic change. To face these challenges effectively, human resources has to attend to its own organization and its own competencies. It must ensure that it is organized to add maximal value in the new organization.

A number of studies have addressed the new competencies required as the human resources function strives to be a business partner in this changing environment (e.g., Eichinger and Ulrich, 1995; Smith and Riley, 1994; Csoka, 1995) and to align with the business. Identifying these competencies is only the first task in redirecting the human resources function. Other key challenges are organizing to develop these competencies and to provide services in a manner that adds maximal value as organizations change their overall architecture and strategy.

Staff organizations, in general, are under fire in organizations because they are frequently perceived as controlling rather than adding value. They are often not perceived as being in tune with the demands for performance and change that operating units are encountering. They are being required 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. Among the changes in structure and process that are being predicted for staff organizations (Lawler and Galbraith, 1993) are: decentralization of business support to operating units; finding the most efficient way to deliver processing services including contracting out and centralized processing units; contracting with business units for the services that will be delivered and their cost (self-funding); and increased participation in cross-unit teams. Increasing rotation of people between staff and line to promote a broader business awareness by all, and fewer life-long careers within a particular staff function are also predicted.

The human resources function is being affected by all of these trends (Mohrman and Lawler, 1993), as human resources works to develop a strategic partnership with the operating units. A key driver is the need to get out of the control and audit role as organizations move away from a culture of hierarchical control to one of self-management and employee involvement in the business in order to create conditions for high performance. Lawler (1995) carries this line of thought further by arguing that this human resources management approach (Figure 1) does not go far enough in meeting business needs. He argues for a business partner approach (Figure 2).

The business partner approach stresses that the role of human resources goes beyond developing systems and practices to ensure that the company's human resources have the needed competencies and are motivated to perform effectively. It includes a role in helping the organization transform and develop itself through time. It stresses the positioning and design of the human resources function to be a partner in business strategy. Ongoing transformation and dynamic flexibility of human resources is part of the creation of a dynamic and flexible organization. Mohrman and Lawler (1993) see the need for a much deeper expert understanding of business strategy and organization design to underpin the development of integrated human resources practices that are suitable for this new environment and to yield approaches that support the new organization designs that are emerging. They predict that a number of organizational approaches will become more common:

Figure 1: Human Resources Management

AIMS	Business orientation Services provided expressed as outputs or products Voice of the customer
PROCESS	Build performance-management capabilities Development of managers: linking competencies to job requirements and career development Succession planning Enhancing organizational change capabilities Building an organization-wide human resources network
PLANNING	Business plans 'inspected' by human resources (and all other functions); inputs from human resources may be inserted in the planning process

Source: Based on Evans (1994).

Figure 2: Business Partner

AIMS	Line management owns human resources as a part of their role Human resources is an integral member of management teams Culture of the firm evolves to 'fit' with strategy and vision
PROCESS	Human resources organized flexibly around the work to be done (programs and projects, outsourcing) Focus on the development of people and organizations (road maps, teams, organization design) Leveraging competencies, managing learning linkages, building organizational work redesign capabilities Leadership development
PLANNING	An integral component of strategic and business planning by the management team

Source: Based on Evans (1994).

- ◆ Human resources practices increasingly will be developed by teams of people that contain expertise in multiple people systems that have to work together to foster the new culture, as well as expertise in the business issues and strategies that must be supported. They predict that human resources services will be provided by cross discipline teams, and that human resources programs and policies will be developed by joint human resources/line task teams.
- ◆ The record keeping function will be transformed as human resources adopts new work processes enabled by powerful computer systems or outsources these functions; fewer human resources will be expended on record keeping functions.
- ◆ The processing aspects of human resources will be performed in the most efficient fashion possible by specialized processing centers or by outsourcing.
- ◆ The business partner aspects of human resources will be customized to different users and performed by generalists who are aligned with business units.
- ◆ Cross functional careers and multi-skilling will be used to create true generalist business support capability and business understanding.
- ◆ Business units will be given increased control over the cost and content of human resources services. Self-funding of at least some of human resources will occur through explicit contracts with business units about the content and cost of human resources services.

This study examines the extent to which these practices are actually occurring in organizations. Based on the framework presented above, the underlying hypothesis is that human resources organizations are changing in response to the strategic and organizational initiatives that businesses are undertaking in order to survive in an increasingly competitive and demanding environment. Four general predictions about change in the human resources function guided the design of this study:

1. The human resources function is increasingly focused on supporting company strategy and organizational change. The focus on maintenance and audit functions that characterized personnel in the past is declining.
2. As organization designs change, the design of the human resources function will change to fit the new organizational context and increase its value to the organization. In particular, there will be greater human resources investment in supporting strategic initiatives, and efficiency-oriented approaches to the delivery of human resources services. The greatest use of these business partnership-oriented organizational approaches will be present in companies that are involved in major strategic and organizational change.
3. There will be a misfit between the skills and capabilities of employees in human resources and the job requirements posed by organizations which are undergoing large-scale organi-

zation change. This will lead to the use of a number of approaches to upgrade the skills of human resources managers and professionals, including replacing current employees.

4. As human resources increasingly employs advanced information technology to facilitate its work processes, the content of human resources work will shift away from administrative to professional work.

THE STUDY

This is an exploratory study examining whether the strategically oriented changes that have been predicted for human resources organizations are in fact taking place. The sample for the study consisted of 417 large and medium sized service and industrial firms. The firms are sponsors of the Center for Effective Organizations at the University of Southern California and/or members of The Human Resource Planning Society (HRPS). Surveys were mailed to members of these organizations who are in a director level or above position with corporate-wide visibility to the human resources organization. This approach to creating our sample reflected our belief that these individuals would be likely to respond to a survey sponsored by The HRPS and conducted by the Center for Effective Organizations. Furthermore, the members of these organizations probably represent companies that are experiencing strategic change and, thus, the phenomena we were looking for would be most likely to be found in these companies. These companies may be ahead of average in change. This study cannot be interpreted as representing companies in general. However, a large number of industries are represented in this study. Furthermore, given our desire to study how human resources organizations are responding to strategic change in the business, and given that we measure the amount of strategic change that is going on in each business, the issue of representativeness is not a major problem.

A three-step procedure was used to conduct this survey research. First, in January of 1995, surveys were mailed to the 417 firms identified in the sample. Four weeks after the initial mailing, reminder letters were mailed to all firms who had not returned completed surveys. Thirty days later, a second questionnaire was sent to firms who had not yet responded. One hundred and thirty usable surveys were received (31% response rate).

Measures

The survey measured six general areas:

1. General descriptive information about the demographics of the firm and the human resources function.
2. The organizational context that the human resources organization 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 human resources organization measured in terms of how much time it is spending in different kinds of roles compared with five to seven years ago, and the extent of emphasis that a number of human resources activities are receiving.
4. 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.
5. The changing skill requirements for human resources and satisfaction with current skills.
6. The perceived effectiveness of the human resources function.

The findings will be reported in roughly that order. A complete copy of the survey with frequencies, means, and variances for each item appears as Appendix A.

FINDINGS

The surveys were more likely to be filled out by large companies than by the medium sized companies in the sample. The average organizational size was 34,770. Therefore, these findings must be considered to characterize large companies. In these firms, the average number of employees in the human resources function was 377. The approximate ratio of human resources employees to all employees was 1 to 92. This ratio is slightly lower than the median 1 to 100 ratio reported in the Conference Board Study (Csoka, 1995). This number should be interpreted carefully since different companies include different tasks in their human resources organization and have different definitions of human resources employees.

Staffing

General human resources function staffing demographic information for the firms responding to the study are portrayed in Table 1. Of the total human resources staff in these organizations, 57% were characterized as professional/managerial, significantly up from 50% five to seven years ago. During that period, the percent of generalists has increased to 46% from 39%, and the percent specialists has decreased commensurably. The percent of the human resources professional/managerial staff that are part of a centralized corporate staff function has decreased to 44% from 51%. Overall, there has been a small increase in the prevalence of generalist staff and a small movement of employees out of centralized corporate functions. Both these trends are consistent with the prediction that human resources will be required to provide generalist support close to operating units.

Table 1 Human Resources Generalists and Specialists (Percent of Professional/Managerial Human Resources Employees)			
	5 to 7 Years Ago	Current	Difference
Professional/Managerial	50	57	Significant Increase
HR Generalist	39	46	Significant Increase
Corporate Staff	51	44	Significant Decrease
N = 130			

The respondents were asked to state the background of the current head of human resources. In 71% of cases, the top human resources executive came up through the human resources function. In the other 29% of cases, this executive came from functions such as operations, sales and marketing, and legal. Thus, a relatively substantial number of firms are placing leaders over the human resources function who are not “traditional” human resources executives.

Company Characteristics and Change Initiatives

Of the responding firms, 41% described their company as having multiple related businesses; 29% were single integrated businesses; 26% consisted of sectors or groups of business units with some corporate functions and support; the remaining 4% were holding companies or “other” configuration of businesses. The configuration of businesses in the corporate portfolio is important because many of the “hybrid” organizational formats described by Galbraith (1995) emerge because of the establishment of new linkages between related business units, and because different businesses within a company are designing themselves differently to deal with varying markets and technical challenges. The shape of a staff group, such as human resources, that results from a value-added analysis may be different in an integrated business where human resources does not have to support varied business strategies than in a multiple business corporation where different businesses may require different human resources approaches. In the multi-business situation, value may be optimized by creating economies of scale through central servicing in areas that do not require business-specific adaptation and by decentralizing the provision of service that has to be tailored to particular operating units.

We asked the extent to which a number of strategic change initiatives were present in the company. In our statistical analysis, five initiatives related strongly to each other and formed a single scale that will be used throughout the rest of this report:

Strategic Change Initiatives

- Building a Global Presence
- Partnering/Networking with Other Companies
- Quality

Two additional strategic change initiatives did not relate to the five listed above: *cost containment* and *acquisitions*. We treated these as single item, separate initiatives. With two exceptions, the presence of these two business initiatives *did not relate to any human resources organizational variables*. The exceptions are that the human resources organization in companies with cost containment strategies were more likely to be spending time administering downsizing and also were more likely to be turning to self-funding of human resources activities. The acquisition strategy did not relate to any human resources variables. The relatively low impact of the cost containment strategy may seem surprising, but it fits with the Conference Board study finding that the primary reason for changing the human resources function is for better alignment with the business and to become more strategic, rather than as a result of short-term, cost-cutting strategies. In order to simplify the reporting of the data from this study, we will not include the cost cutting or acquisition study variables in charts showing how human resources activities relate to company strategies.

Respondents were also asked about the presence of a number of company change initiatives in the past five to seven years. Statistical analysis showed they formed two scales of related items. Work process initiatives deal with the way work is done in the company. Company reshaping items deal with changes in the shape of the organization, including size, layers, and macro-structure. Interestingly, re-engineering initiatives loaded statistically with the latter grouping. This indicates that in many organizations re-engineering may, so far, have been more of a downsizing effort than a true change in the work processes of the organization.

Work Process Initiatives

Employee Involvement
Total Quality Management
Process Management
Team Structures
Process Automation

Company Reshaping

Downsizing
Reducing Layers/Flattening
Restructuring
Re-engineering
Outsourcing

Table 2 shows the extent to which companies with different business unit configurations are characterized by these strategic directions and have work process and reshaping initiatives in place. On average, each of the three strategic change indicators is in place to a “moderate” or a “great” extent in these companies, no matter what their configuration. Similarities across the three configurations of businesses in the presence of the strategic initiatives and the work process initiatives may be related to the fact that our sample is comprised of very large companies, all of which may be facing similar market pressures. The only approach that differs between companies with different configurations of businesses is company reshaping, which is used significantly less in single integrated businesses than in multiple business settings. The differences in integrated companies’ use of reshaping approaches is not due to differences in size, since there is not a significant difference in the size of the three groups of companies. The reshaping of multiple business companies may reflect a reversal of a historical tendency to add layers and redundant control functions as companies spawned new businesses and proliferated complexity.

Table 2 Prevalence of Strategic Change in Companies with Different Business Configurations (Analysis of Variance¹)				
	All Companies (N=130)	Single Integrated Business (N = 37)	Multiple Related Businesses (N=52)	Sectors or Groups of Businesses with some Corporate Functions (N=33)
Size	34,770	39,227	31,215	35,901
Strategic Change Initiatives²	3.50	3.34	3.61	3.51
Work Process Initiatives³	3.30	3.14	3.38	3.36
Company Reshaping⁴	3.42	3.05(-)	3.61 ⁽⁺⁾	3.54 ⁽⁺⁾
Key: ⁽⁺⁾ Significantly higher than at least one other group, ⁽⁻⁾ Significantly lower than at least one other group ¹ Least Squared Differences Test (significance level = .05) ² Strategic Change Initiatives: Building a global presence, partnering/networking with other companies, quality, cycle time reduction, accelerating new product innovation. (Response scale: 1 = Little or no extent, 2 = Some extent, 3 = Moderate extent, 4 = Great extent, 5 = Very great extent). ³ Work Process Initiatives: Employee involvement, process management, total quality management, team structures, and process automation. (Response scale: 1 = Little or no extent, 2 = Some extent, 3 = Moderate extent, 4 = Great extent, 5 = Very great extent). ⁴ Company Reshaping: Restructuring, reducing layers/flattening, re-engineering, downsizing, outsourcing. (Response scale: 1 = Little or no extent, 2 = Some extent, 3 = Moderate extent, 4 = Great extent, 5 = Very great extent).				

In summary, the companies in our sample are in fact experiencing significant strategic change that is manifest in both strategic initiatives and organizational change initiatives to support those directions. The organizational change initiatives fall into two categories: those that look at the way work is done and those that rely on restructuring or reshaping the company. During the rest of this report, we will focus on how company strategic change is affecting the human resources function.

The Changing Human Resources Organization

The data confirm a picture of a changing human resources function. Some of the changes are related to the strategic changes in the corporation; others are happening regardless of the extent of corporate change. Human resources change will be considered from several perspectives: changing human resources roles, changes in the emphasis or focus on various human resources activities, the presence of various organizational approaches to deal with strategic requirements, and investment in various human resources initiatives.

Human Resources Roles. Respondents were asked to estimate the percentage of time that the human resources function currently spends in carrying out a number of roles compared to five to seven years ago. Table 3 shows that there has been a significant change. As predicted, less time is being spent now on the record keeping and auditing functions, and more time on the development of new systems and practices and on being a strategic business partner. There

has also been a small but significant decrease in providing services (helping with the implementation and administration of human resources practices). All of these changes occurred in companies of all configurations: single integrated businesses, multiple related businesses, and groups or sectors of businesses. The only significant difference between these three groups of companies is in the area of strategic business partner activity, where the percent increase was largest in companies composed of several groups or sectors of businesses. This may reflect the large task faced by human resources in helping relatively unrelated businesses formulate human resources approaches that fit very different market and business settings.

Table 3 Percent of Time Spent on Various Human Resources Roles			
	5 to 7 Years Ago	Current	Difference
Maintaining Records <i>Collect, track and maintain data on employees</i>	23.0	15.4	Significant Decrease
Auditing/Controlling <i>Insure compliance to internal operations, regulations, legal, and union requirements</i>	19.5	12.2	Significant Decrease
Human Resources Service Provider <i>Assist with implementation and administration of HR practices</i>	34.3	31.3	Significant Decrease
Development of Human Resources Systems and Practices	14.3	18.6	Significant Increase
Strategic Business Partner <i>Member of the management team. Involved with strategic HR planning, organization design, and strategic change</i>	10.3	22.0	Significant Increase*
N = 130			
* The change is significant in all companies. The percent of change is significantly higher in companies with several groups or sectors of businesses.			

Table 4 Change in Focus on Human Resources Activities During Past 5 to 7 Years (Percent of companies responding)			
	Decreased	Stayed the Same	Increased
HR Planning	0.8	13.3	85.9
Compensation	2.3	28.9	68.8
Benefits	3.1	31.3	65.6
OD	3.2	21.0	75.8
Employee Training/Education	8.6	27.3	64.1
Management Development	5.4	25.6	69.0
Employee Relations	6.2	58.1	35.7
Union Relations¹	14.0	38.0	17.8
HR Information Systems	0.8	22.5	76.7
Performance Appraisal	3.9	31.8	64.3
Selection	9.3	38.0	52.7
Recruitment	20.9	38.0	41.1
Career Planning	14.7	43.4	41.9
Employee Record Keeping	30.2	53.5	16.3
Legal Affairs	10.1	48.1	41.9
Affirmative Action	11.6	55.0	33.3
¹ Numbers do not add up to 100%; 30.2% of companies responding to this question do not have unions.			

Human Resources Activities. To get a more finely tuned sense of the change in emphasis that underpins these shifts in role, we asked whether the focus on a number of human resources activities has increased, stayed the same, or decreased over the past five to seven years. Table 4 shows these activities and how companies responded. The greatest increases in focus are in the areas of human resources planning, organization development, and human resources information systems. Companies were most likely to have decreased focus on employee record keeping.

These findings are consistent with the Conference Board’s study findings that business support activities such as planning and change activities are viewed as increasing in importance and record keeping functions are viewed as decreasing in importance. Perhaps most interesting is that for most functions, companies report either no change or an increase in focus. As human re-sources functions take on new responsibilities, they do not seem to be dropping focus on the old ones. Furthermore, other analyses (not shown in a chart) indicate that the changes in focus on human resources activities occurred across the sample as a whole, and companies with different business configurations did not differ systematically. The forces leading to changes in the focus of human resources functions do not seem to be related to the business configuration of the company.

Factor analyses showed that some clusters of these activities are changing in a related manner. The clusters are as follows:

**Employee Issues
and Regulations**

Legal Affairs
Affirmative Action
Benefits
Employee Relations
Employee Record Keeping

Development and Training

Employee Development & Training
Management Development
Organization Development
Career Planning

Staffing

Recruitment
Selection

The remainder of the activities (*compensation, performance appraisal, information systems, and human resources planning*) did not cluster with others, indicating that they are changing independently. In future analyses that are presented in this report, results will be shown for the three clusters of activities, as well as for each of the four activities that did not cluster. “Union relations” will be dropped from future analyses because one third of our companies did not have unions.

Impact of Automation. We hypothesized that human resources functions will be automating in order to accomplish record keeping and other tasks more efficiently, possibly enabling human resources employees to spend more time on strategic business support. Table 5 shows the current state of automation of human resources processes in this sample. Forty-eight percent of companies have automated most or all of their human resources systems, and 45% have at least some automated processes. The extent of automation was not related to the kind of business configuration, nor was it related to the changing roles of human resources. However, companies that had less automation had a higher focus on the employee issues and regulatory activities, probably reflecting the greater amount of time that these activities require when there is no enabling automation. At this point in time, it does not seem that automation has had a significant impact on the way the human resources function is organized, although it may be because human resources functions have not yet been significantly re-engineered to take advantage of new technological capabilities.

Table 5 State of Human Resources Automation				
	All Companies (N=130)	Single Integrated Business	Multiple Related Business	Several Sectors Businesses
Little Automation Present in the HR Function	6.3%	9.6%	8.1%	0.0%
Some HR Processes are Automated	45.3%	42.3%	43.2%	48.5%
Most Processes are Automated	40.6%	40.4%	40.5%	42.4%
Completely Integrated HR Information Systems	7.8%	7.7%	8.1%	6.1%

Human Resources Organizational Approaches. Respondents were asked to indicate the extent to which their function is set up to operate in the following ways:

- ◆ Central Shared Services
 - Shared central processing units
 - Centralized administrative processing
- ◆ Decentralized Generalist Support
 - Decentralized generalist support
 - Allowing human resources practices to vary across business units
 - Very small corporate staff--most human resources managers and professionals out in the business units
- ◆ Rotation
 - Within human resources
 - Out of human resources to other functions
 - Into human resources from other functions
- ◆ Corporate Centers of Excellence
- ◆ Joint Line/Human Resources Task Teams to Develop Human Resources Systems and Policies
- ◆ Human Resources Teams Providing Service and Supporting the Business
- ◆ Self-Funding of Human Resources Services
- ◆ Transfer of Human Resources Tasks to the Line

Table 6 shows the extent of use of these organizational approaches in the overall sample and in each of the three groups of companies with different business configurations. The practice being used the least is self-funding of human resources activities. Rotation, transfer of activities to the line, and creation of centers of excellence are being used “to some extent”, but less than the other approaches. On average, companies are using central shared services, decentralized generalist and business support, joint line/human resources task teams to develop policies and systems, and human resources service delivery teams “to a moderate extent”.

Table 6
Use of Human Resources Organization Approaches and Initiatives in Companies
with Different Configurations
(Analysis of Variance¹)

	All Companies (N = 130)	Single Integrated Business (N = 37)	Multiple Related Businesses (N = 52)	Sectors or Groups of Businesses with some Corporate Functions (N = 33)
HR ORGANIZATIONAL APPROACHES²				
Rotation	2.10	1.90	2.14	2.24
Central Shared Services	3.18	3.30	3.25	2.95
Decentralized Generalist Support	3.13	2.59 ⁽⁻⁾	3.30 ⁽⁺⁾	3.46 ⁽⁺⁾
Centers of Excellence	2.49	2.17 ⁽⁻⁾	2.76 ⁽⁺⁾	2.42
HR Service Delivery Teams	3.00	2.59 ⁽⁻⁾	3.16 ⁽⁺⁾	3.21 ⁽⁺⁾
Joint Line/HR Task Teams	3.27	3.43	3.27	3.09
Self-Funding of HR Services	1.64	1.42	1.76	1.70
Transfer of HR Tasks to the Line	2.66	2.49	2.83	2.59
HUMAN RESOURCES INITIATIVES³				
Business Support ⁴	3.87	3.82	3.77 ⁽⁻⁾	4.08 ⁽⁺⁾
Process Improvement Support ⁵	3.42	3.41	3.37	3.53
Aligning Rewards and Appraisal with Business Strategy	4.08	4.19	3.98	4.12
Administering Downsizing	3.87	3.49 ⁽⁻⁾	4.10 ⁽⁺⁾	3.94
<p>Key: ⁽⁺⁾ Significantly higher than at least one other group, ⁽⁻⁾ Significantly lower than at least one other group</p> <p>¹ Least Squared Differences Test (significance level = .05)</p> <p>² Response scale: 1 = Little or no extent, 2 = Some extent, 3 = Moderate extent, 4 = Great extent, 5 = Very great extent.</p> <p>³ Response scale: 1 = No investment, 2 = Very little investment, 3 = Limited investment, 4 = Moderate investment, 5 = Great investment.</p> <p>⁴ Business Support: Consult to organization on change implementation, participate in business planning, support employee involvement efforts, consult to organization on organization design.</p> <p>⁵ Process Support: Support quality process, participate on TQM & reengineering teams.</p>				

With the exception of shared services and joint line/human resources task teams, these practices are less likely to be used in companies that are integrated single businesses. Decentralized generalist support, human resources service delivery teams, and centers of excellence are significantly more likely in multiple business contexts. These contexts may provide the greatest need and opportunity for finding new ways to configure human resources services to optimize both efficiency and business responsiveness simultaneously.

Human Resources Strategic Initiatives. Respondents were asked about the level of human resources investment of time and resources in a number of initiatives to support strategic change. These items factored into two scales:

- ◆ Support for Process Improvement
 - Support of the quality process
 - Participating on TQM and re-engineering teams

- ◆ Support for Business and Organization Change
 - Consulting to the organization on change implementation
 - Participating in the business planning process
 - Supporting employee involvement efforts
 - Consulting to the organization on organization design

In addition, two initiatives did not relate to the others and will be dealt with as single items in analysis:

- ◆ Aligning Rewards and Appraisal with Business Strategy

- ◆ Administering Downsizing Activities (e.g., Outplacement)

The bottom of Table 6 shows the average amount of investment in these areas by human resources departments. The highest level of investment is in aligning rewards and appraisal with business strategy. In this arena there are no significant differences between companies with different kinds of business unit configuration. Human resources functions are also investing, on average, between a “limited” and “moderate” amount in business support, process improvement support, and in administering downsizing. Human resources functions in companies with multiple groups of businesses are most likely to be making a significant investment in business support. Again, this probably reflects the need in these companies for attention to human resources issues as different business units adopt new designs and strategies to adapt to their varied environments. Companies with multiple related businesses are more likely to be investing in administering downsizing, perhaps because these companies are most likely to be achieving efficiencies by consolidation and leverage and, thus, to be reducing and eliminating positions.

It is interesting to note that the area receiving the least human resources investment is in support of the process improvement (TQM and re-engineering) efforts of the company. This may reflect that human resources has not been a major player in these efforts, or that even if they are a full participant, these activities are not taking a substantial amount of time and resources.

Relation of Human Resources Direction to the Business Strategy

We hypothesized that change in the human resources function is being driven by change in the business. In order to determine whether this is true, we correlated the use of various human

resources organizational approaches and changes in human resources activities and roles with the amount of change in the business. We found considerable support for the hypothesis.

The top of Table 7a shows the relationship of the use of various organizational approaches in human resources to the amount of strategic change (S), work process initiatives (WP), and reshaping (R) activity going on in the business. In the sample as a whole, all of the organizational practices except the use of central shared services are related to at least one of the company business change variables. The use of human resources teams is related to all three business variables. These changes demand the integration of human resources services. Rotation, the use of joint human resources/line task teams, and the use of centers of excellence are related to both the overall amount of strategic activity in the business as well as to the amount of work process change activities going on. These approaches relate to both the depth and breadth of knowledge being brought to bear on human resources issues. Decentralized generalist support is related to the amount of strategic change and to company reshaping. These organizational approaches, in particular, are very closely related to changing business directions. They demand the placement of general human resources support close to business units being affected. Human resources organizations are transferring work to the line primarily in response to the organizational reshaping that is going on; this could be a part of an overall cost savings effort to reduce the resources consumed by staff organizations, or it could result from re-engineering efforts that build on the capabilities of new information technology.

The bottom of Table 7a shows the relationship of business changes to human resources investment in various strategic initiatives to support the business. Except for aligning rewards and appraisal with strategy, all the human resources change initiatives are significantly related to at least one business change arena. Aligning rewards and appraisal with business strategy is a trend that may have begun as an early response to an increasingly competitive environment rather than as a response to particular new strategic directions forged by the company.

Overall, these human resources organizational practices and strategic initiatives are most likely to be driven by strategic initiatives and by company changes in work processes—in *what work is done* and the *way work is done*. Reshaping activities such as downsizing and flattening appear less likely to drive change in how human resources is organized to deliver services and the change initiatives it undertakes.

Table 7a Use of Human Resources Organizational Approaches and Initiatives Related to Extent of Company Strategic and Organizational Change (Correlations)				
	Full Sample	Single Inte- grated Business	Multiple Related Businesses	Several Sectors of Businesses
	(N=130)	(N=37)	(N=52)	(N=33)
HR ORGANIZATIONAL APPROACHES				
Rotation	S, WP		S, WP	
Central Shared Services			R	
Decentralized Generalist Support	S, R		S	
Centers of Excellence	S, WP	S	WP	S
HR Services Delivery Teams	S, WP, R	WP	S	
Joint Line/HR Task Teams	S, WP	WP	WP	WP
Self-Funding of HR Services	WP		S, WP	
Transfer HR Tasks to the Line	R		S, R	
HUMAN RESOURCES INITIATIVES				
Business Support	WP			S
Process Improvement Support	S, WP	WP	S, WP	WP
Aligning Rewards and Appraisal with Business Strategy			WP	
Administering Downsizing	WP, R	R	S, WP, R	R
Key: S = Strategic initiatives are significantly related to the human resources approach at the $p \leq .05$ level. WP = Work processes are significantly related to the human resources approach at the $p \leq .05$ level. R = Reshaping is significantly related to the human resources approach at the $p < .05$ level.				

Table 7a also shows these same relationships for companies in each of the three business configurations. Because of the small numbers, significant relationships within each group are less stable and harder to attain, and the patterns should be interpreted as conservative indications rather than true tests. The relationship between business directions and human resources organization and human resources change initiatives is most pronounced in companies with multiple related businesses. In these related business settings, human resources organizational approaches and change initiatives are equally likely to be related to company strategic initiatives and to work process changes.

Human resources departments in single, integrated businesses may be confronting fewer structural pressures; they seem primarily to be adopting changes in how they deliver services (teams, joint task teams, and process improvement support) in response to work process initiatives in the company. We should keep in mind that they are employing many of these approaches to a smaller extent than the multi-business organizations and appear to have less strategic change going on in their businesses as well.

In companies with multiple groups of businesses, there is less relationship of the use of these human resources organizational approaches and initiatives to corporate strategic change. It is

possible that many of the approaches described in this report have been used by these companies to become more responsive to the internal variety of the businesses and their environments rather than as a response to particular strategic change focuses.

Table 7b shows the relation of business change to changes in the way human resources departments are allocating time across different roles and their increase in attention to different human resources activities. Overall, it seems that the mix of roles and activities is less sensitive to business changes than are the organizational changes and strategic initiatives shown in Table 7a. This may be because many or even most human resources activities have to be performed regardless of whether there is strategic change in the company, precluding a large shift due to particular aspects of the strategy. The overall patterns of change in attention to various activities may reflect changes in context, such as automation and societal emphasis, and an overall increase in the importance of the business alignment of human resources because of increased competition as much as it reflects changes in business strategy and organizational initiatives.

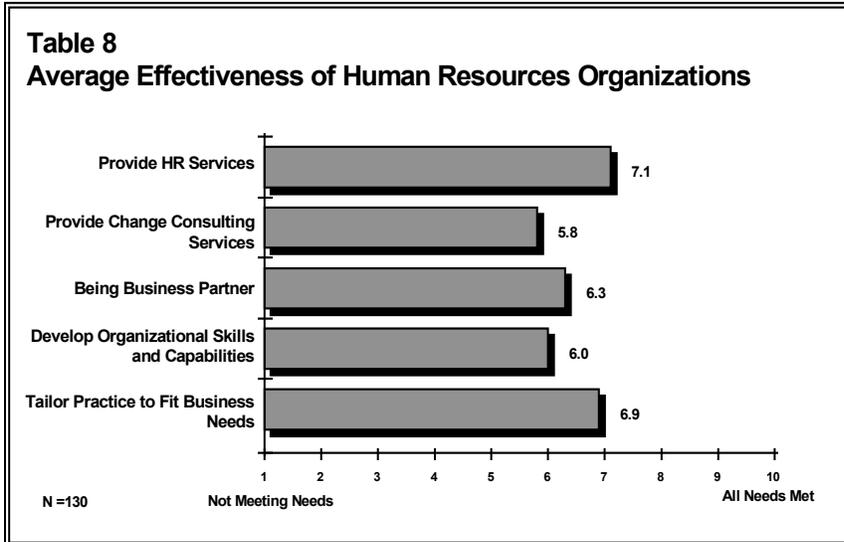
Company changes in work processes are the most likely of the three company strategy variables to be related to human resources changes in allocation of roles and emphasis on tasks. Strategic initiatives and reshaping of the organization do not relate to changes in the roles and emphases of human resources. Organizational work process initiatives that affect the way work is done, such as employee involvement, teaming, and process management, require changes in the skills and roles of organizational members as well as upgrades in the information systems of the organization. This may explain the relationship of work process initiatives to staffing, training and development, and information systems. There is a rather surprising negative relation between human resources' emphasis on being a strategic business partner and the amount of work process change going on in the company. It may be that if a company is emphasizing work process change, human resources' time goes to supporting process activities and not as much to supporting strategy.

Table 7b Correlation of Human Resources Changes in Focus with Company Strategic and Organizational Change				
	Full Sample	Single Integrated Business	Multiple Related Businesses	Several Sectors of Businesses
	(N=118)	(N=37)	(N=52)	(N=33)
CHANGE IN PERCENT OF TIME SPENT				
Record Keeping				
Auditing/Controlling	(-)R			
Providing Services				
Developing HR Systems and Practices				
Strategic Business Partnership	(-)WP			
INCREASE IN ATTENTION TO				
Employee Issues and Regulations			WP	
Development and Training	WP			
Staffing		WP	WP	
Performance Appraisal				
Compensation				
Information Systems	WP			R
Planning				
Key: S = Strategic initiatives are significantly related to the human resources approach at the $p \leq .05$ level. WP = Work processes are significantly related to the human resources approach at the $p \leq .05$ level. R = Reshaping is significantly related to the human resources approach at the $p < .05$ level.				

In summary, changes in the human resources organization and strategic human resources initiatives appear to be related to the amount of strategic change occurring in the company. The relationship is particularly strong with the company's work process initiatives and the overall amount of strategic change in the company. It is less likely to be triggered by reshaping. Furthermore, company strategic change is more closely coupled to human resources change in companies with multiple related businesses. The patterns of relationship between company strategic change and the way human resources allocates its time and attention is less closely coupled to business change. It may be that it is easier for human resources to make organizational changes and to undertake initiatives to support business change than to change its mix of traditional activities.

Human Resources Effectiveness. Respondents were asked to indicate their judgments of the effectiveness of human resources in five areas: 1) Providing human resources services; 2) Providing change consulting services; 3) Being a business partner; 4) Developing the organization's skills and capabilities; and 5) Tailoring practices to fit business needs. Table 8 shows that on average, respondents felt that the human resources organization does the best job of providing human resources services and tailoring practices to fit business needs, and the worst job of

providing change consulting services and developing the organization's skills and capabilities. On a ten point scale, however, the highest area, providing human resources services, only receives a 7.1. These respondents are indicating that there is a need for a great deal of improvement.



In interpreting the following charts, it is important to stress that these are *self-ratings* of effectiveness. They are indications of how effective human resources feels it is being. The low ratings could stem from a number of sources. They may indicate that human resources does not feel it has the competencies to perform in a certain manner. Likewise, it may indicate that it is not organized or positioned effectively.

Table 9a shows the correlation of the human resources perceptions of human resources effectiveness with company strategic directions and human resources organizational approaches, initiatives, and changes in roles and focus. Human resources feels more effective in all areas of human resources performance in companies that have a greater amount of work process initiatives in place. This may relate to earlier findings that human resources is likely to have made changes when there is a higher amount of work process activity in the company. Respondents also think that human resources is more effective if it has a greater investment in initiatives to support the business. Human resources support for process improvement activity also relates to some aspects of perceived effectiveness. The overall picture is that human resources views itself as more effective to the extent it has initiatives in place to consult to and support the business.

Certain organizational approaches also relate to perceived effectiveness. Respondents feel that human resources is more effective to the extent it is using central shared services, and less effective to the extent it uses decentralized generalists. This may be because it is more difficult to develop and nurture deep knowledge if human resources is decentralized, as well as to keep “control” over human resources practices. Thus, it appears that human resources feels most effective when using traditional centralized approaches. This is further substantiated on Table

9b, which examines the relationship of perceived effectiveness to changes in activities and focus of the human resources function.

Human resources reports itself to be more effective the more it focuses on employee issues and regulations and on development and training, the traditional human resources roles. There may be a discomfort with giving up these directions because they are so associated with human resources professionals' sense of the appropriate role for the function. Table 9b also indicates that human resources is not yet feeling effective in its new role as business partner despite the fact that it is more likely to feel effective to the extent that it is investing in initiatives to support

Table 9a
Human Resources' Perception of Own Effectiveness Related to Organizational Approaches
(Correlation Coefficients)

EFFECTIVENESS OF:	HR Services	Change Consulting	Business Partnering	Developing Organizational Competencies	Tailoring Practices to Business Needs	Overall (Average)
COMPANY DIRECTIONS						
Strategic Change	-.05	.02	.05	.05	.06	.03
Work Process Initiatives	.22*	.31***	.20*	.20*	.26**	.30***
Company Reshaping	-.01	.19*	-.03	.00	.02	.05
HUMAN RESOURCES ORGANIZATIONAL APPROACHES						
Rotation	.01	.02	.05	.09	.11	.07
Central Shared Services	.16	.21*	.22**	.27**	.27**	.28***
Decentralized Generalist Support	-.14	-.10	-.26**	-.29***	-.18*	-.24
Centers of Excellence	-.04	.13	.11	.05	.15	.11
HR Service Delivery Teams	-.00	.21*	.15	.17	.24**	.19*
Joint Line/HR Task Teams	.13	.24**	.26**	.19*	.22**	.26**
Self Funding of HR Services	.05	.07	.09	.04	.11	.09
Transfer of HR Tasks to the Line	-.19*	.06	-.02	-.08	.01	-.04
HUMAN RESOURCES INITIATIVES						
Business Support ¹	.07	.36***	.36***	.15	.24**	.31***
Process Improvements Support ²	.02	.20*	.19*	.11	.07	.15
Aligning Rewards and Appraisal with Business Strategy	.05	.08	.15	.04	.17	.12
Administering Downsizing	.04	.10	.02	.01	.04	.05
<p>Key: * weak relationship ($p \leq .05$) ** moderate relationship ($p < .01$) *** strong relationship ($p < .001$)</p> <p>¹ Business Support: Consult to organization on change implementation, participate in business planning, support employee involvement efforts, consult to organization on organization design. ² Process Support: Support quality process, participate on TQM & reengineering teams.</p>						

Table 9b
Human Resource's Perception of Own Effectiveness Related to Their Change in Focus Over Past 5 to 7 Years
(Correlation Coefficients)

EFFECTIVENESS OF:	HR Services	Change Consulting	Business Partnering	Developing Organizational Competencies	Tailoring Practices to Business Needs	Overall (Average)
CHANGE IN PERCENT TIME SPENT						
Record Keeping	.14	-.07	.05	-.01	.08	.07
Auditing/Controlling	.22*	-.07	-.02	.01	.04	.03
Providing Services	-.07	-.04	-.06	.07	-.08	-.04
Developing HR Systems and Practices	-.15	-.13	-.05	-.19*	-.07	-.14
Strategic Business Partnership	-.18	-.06	-.14	-.08	-.07	-.12
INCREASE IN ATTENTION TO						
Employee Issues and Regulations	.17	.21**	.29***	.30***	.30	.31***
Development and Training	.07	.31***	.14	.25**	.13	.23**
Staffing	-.04	.10	.15	.12	.09	.11
Performance Appraisal	-.06	-.04	-.01	-.04	-.05	-.05
Compensation	-.12	.07	.09	.13	.06	.06
Information Systems	-.05	.08	.11	.03	.05	.06
Planning	-.01	.06	.24**	.10	.13	.13

Key: * weak relationship ($p \leq .05$)

** moderate relationship ($p < .01$)

*** strong relationship ($p < .001$)

¹ Business Support: Consult to organization on change implementation, participate in business planning, support employee involvement efforts, consult to organization on organization design.

² Process Support: Support quality process, participate on TQM & reengineering teams.

the business. Apparently, human resources is a function that feels new focuses are needed, but is not yet fully satisfied with its capabilities. This issue will be discussed more fully in the section below on human resources skills.

The use of human resources teams to deliver services and of human resources/line teams to determine policies and programs are both positively related to various aspects of human resources perceptions of its effectiveness. These are both process changes, which is consistent with an overall theme that emerges from these data that the human resources function is especially adept at responding to changes in the work processes of the organization. In summary, the respondents rate human resources as only partially meeting the needs of the business, particularly in the areas of change consulting, being a business partner, and developing organizational skills and capabilities. They rate themselves higher to the extent they have initiatives to support the business and its process improvement efforts, and to the extent they are breaking down functional and organizational boundaries and working in teams and collaboratively with customers. They rate their own effectiveness lower to the extent they are employing decentralized approaches that enable practices to vary between businesses, and more effective to the extent they have centralized shared services and maintain focus on traditional human resources roles.

Human Resources Skills. Respondents were asked the extent to which human resources professional/managerial employees need to have certain knowledge and skills has changed over the past five to seven years. Table 10 shows that the need for almost all skills and knowledge has increased. The only exception is record keeping, where the need has on average decreased. The largest increases are in the areas of team skills, business understanding, coaching/facilitation, consultation skills, and leadership skills. Need for interpersonal skills, quality skills, functional human resources and cross-functional knowledge also have increased significantly. Thus, these findings seem to support Ulrich's (1990) model that suggests that business mastery, change mastery, and human resources competency are all important in the new environment.

Table 10 The Changing Skill Set of the Human Resources Staff		
	Mean Change in Need for Skills ¹	Mean Satisfaction with Current Skills ²
Team Skills	2.9	3.3
Business Understanding	2.9	3.0
Coaching/Facilitation	2.8	3.2
Consultation Skills	2.8	3.0
Leadership Management Skills	2.8	3.0
Interpersonal Skills	2.6	3.7
Quality Skills	2.6	3.2
Functional HR Expertise	2.5	3.7
Crossfunctional Experience	2.5	2.9
Record Keeping	1.7	3.6

¹ Response Scale: 1=Decreased, 2=Stayed the Same, 3=Increased.

² Response Scale: 1=Very Dissatisfied, 2=Dissatisfied, 3=Neutral, 4=Satisfied, 5=Very Satisfied.

Table 10 shows how satisfied these companies are with particular human resources skill levels. Satisfaction is lowest with business partner oriented skills and knowledge, including cross-functional experience, business understanding, and consultation and leadership skills. Satisfaction is not much higher with process support skills: quality, team, and coaching and facilitation skills. These companies are most satisfied with their functional human resources skills, interpersonal skills, and record keeping. Table 11 shows that more than half of the respondents feel that at least 40% of their professional and managerial population do not have the necessary skill set for success in today's business environment.



Companies are taking a number of measures to upgrade skills and get the needed skill mix. The most prevalent approach (Table 12) is investment in skill development of existing staff, an approach that is being used extensively by 36% of companies, and to some extent by 55% of companies. These companies are also using other approaches: replacing employees with obsolete skills, looking to the other parts of the organization for staff, and outsourcing.

Table 12 Measures Taken to Change Human Resources Skill Mix			
	Little/No Extent	Some/Moderate Extent	Great or Very Great Extent
Replace Obsolescent HR Personnel with New Hires	27%	54%	19%
Extensive Investment in Skill Development for Existing Staff	9%	55%	36%
Look to Line or Other Parts of Organization	24%	59%	16%
Outsource Services	21%	60%	19%

The manner in which companies deal with this skills issue is related to the strategic initiatives that are prevalent in the company. Table 13 shows that the presence of a greater amount of strategic change initiatives and of work process initiatives relate to greater use of skill development, bringing human re-sources staff in from the rest of the organization, and replacement of employees with obsolete skills. Organizational reshaping efforts, on the other hand, are strongly related to outsourcing and more weakly related to replacing employees whose skills are obsolete. Outsourcing is for many organizations part of their restructuring efforts, and in those companies human resources is more likely also to be employing outsourcing. Apparently, this approach is not only to contain costs; it is also viewed as a way to deal with the lack of needed skills. This fits with findings from the Conference Board study (Csoka, 1995) that the two primary reasons for outsourcing are cost efficiencies and to attain specialized expertise.

Table 13 Correlation of Strategic Change and Organizational Initiatives with Approaches to Dealing with Changing Human Resources Skill Requirements			
	Strategic Change Initiatives	Work Process Initiatives	Company Reshaping
Replace Obsolescent HR Employees	.24**	.19*	.19*
Invest in Skill Development	.32***	.27**	.10
Bring Staff from Line Positions	.20*	.28**	-.01
Outsource	.00	.15	.29***
N=120			
Key: * = weak relationship ($p \leq .05$) ** = moderate relationship ($p \leq .01$) *** = strong relationship ($p < .001$)			

Table 14 shows the activities that are being partially or completely outsourced by at least 25% of these companies. Only a handful of companies is completely outsourcing any of these activities. Human resources information systems, benefits, and employee training and education are most likely to be completely outsourced. In general, however, human resources departments appear to be selectively outsourcing activities in these areas as well as in management development, legal support, recruitment, and organization development. The Conference Board study found that relocation services (not looked at in our study) were most likely to be outsourced, with benefits also outsourced in more than 25% of firms. They report less outsourcing activity overall than we found in our sample.

Table 14 Significant Outsourcing Behavior of Human Resource Practices (Activities that 25% or More of Firms are Partially or Fully Outsourcing)	
	% Outsourcing
Benefits	70%
Employee Education and Training	53%
Management Development	47%
Legal	39%
Recruitment	38%
Organization Development	34%
Human Resources Information Systems	31%

In summary, almost all human resources competencies—business, change, team, and human resources functions—are increasing in importance. The exception is record keeping. Human resources executives see the need for improvement in almost all competency categories, although less so in the functional human resources skills. In most human resources departments, almost half the professional and managerial employees are seen as falling short on the needed skill set. Human resources departments are using a variety of approaches, including outsourcing, to establish the needed skill sets to carry out their changing roles.

CONCLUSION

This study adds important new data to the increasing evidence that the design and activities of human resources departments are changing in order to become business partners and to add increased value in the increasingly competitive world that companies are facing. Whereas other studies have asked about “importance” of new directions and skills, this study focused on actual practice. When practice is examined, there is clear evidence that change is happening. However, the rate of change appears to be less dramatic than much of the rhetoric about human resources would lead one to believe.

Our data does not give us specific information on why change is occurring at a slower rate than might be expected. However, another study provides some important evidence. As part of our research program at CEO, we have been studying the type of organization design changes that corporations have been making (Lawler, Mohrman, and Ledford, 1995). We began this study in 1987. It shows that companies are increasingly adopting employee involvement and TQM and that they are downsizing and flattening. However, the amount of change is considerably less than might be expected given the attention that organizational restructuring and change has received in the last decade. Given this context, it is not surprising that human resources function changes which are expected to be driven by changes in organization design are also less common and dramatic than might be expected.

Much of the change that is occurring seems to be driven by changes in the business strategic direction and organization. Changes in the way human resources is organized to deliver services are especially likely to be occurring in companies with multiple businesses—either related businesses or sectorized corporations—when compared with companies with a single integrated business. This fits with the organization design framework of Galbraith (1995) that suggests that the redesign of business units and “value-adding” approaches to decisions about centralization and decentralization is leading to significant change not only in the structure of operating units, but also in the design of staff support units.

Across the board, the greatest amount of change in the human resources function is being driven by corporate initiatives focusing on *how* work is done: employee involvement, quality and process improvement, and shifting to teams. Human resources is getting out of the auditing role, participating in teams with the line, and forming its own teams to deliver integrated services to the organization. Thus, a business partnership is being achieved in part by human resources’ participation in these major process changes. “Reshaping” activities such as

downsizing, delayering, and re-engineering in the corporation are related to particular human resources approaches including outsourcing, transferring tasks to the line, and decentralizing generalist support.

There has been a shift in human resources roles: away from auditing and record keeping and toward more business partner and change management support. The functional human resources roles have not declined in importance, although there is evidence that the human resources functional responsibility is shifting to developing programs that fit business needs and away from administering those programs. In all, we get a picture of emerging human resources roles that add responsibilities and emphasize particular focuses, but do not greatly reduce the need for competent human resources functional and programmatic support. In fact, the sophistication required to tailor human resources programs to the business is far greater, requiring an increase in human resources skills in all areas. These trends in the focus of human resources activities and needed skills apply as much to integrated single-business companies as to multi-business companies. This suggests that human resources managers need to be ambidextrous in the sense that they need to continue to do their traditional activities, but to do them more efficiently to enable them to take on a more strategic role.

Our data show that less time is being spent in the relatively low value-adding activity of record keeping, although they suggest that much of the impact of computer technology is yet to be felt in the form of fundamental changes to the human resources organization and the way it delivers services. It is a good guess that as these systems are implemented and processes are re-engineered, the shift in the human resources focus will be more dramatic as systems make it possible for managers and employees to provide their own human resources services.

What does the future hold for human resources? A good guess is that change has just begun and that the next decade will see dramatic change in the human resources function in most corporations. The opportunity exists for human resources to become a true strategic business partner, and to help decide how the organization will be managed, what the human resources systems will look like, and how human resources services will be created and delivered. However, there is no guarantee that the present occupants of human resources jobs will lead this change. Indeed, there is evidence in this study that the comfort level of human resource executives is highest with traditional activities and modes of delivery. Increasingly, senior managers of the human resources function are coming from line management jobs, speaking volumes to the point that human resources managers need to increase the rate of change in their function.

Although there is an opportunity for human resources managers to become strategic partners, it is by no means certain that they will end up in the right kind of partnerships. Human resources managers need to actively manage the formation of their partnership with the rest of the organization so that it goes beyond one of simply providing 'good human resources' to the organization. Clearly, this is a part of what they should do, but only a small part of how they can, potentially, add value and only one way in which they can make an organization more effective. There is a whole host of other things they can do to create human resources systems that develop key strategic organizational capabilities. In the long term, human resources functions can contribute the most and be the best strategic partners by focusing on

organizational effectiveness and organizational capabilities rather than on the more limited objective of providing the right human resources talent.

This study substantiates earlier work that suggests the need for a general upgrade in human resources support in the organization. Human resources organizations are truly being asked to do more with less. Furthermore, changes in the business are demanding increased focus on adding value to the business in almost all of the same arenas in which human resources was once a maintenance function. In addition, new focuses are being undertaken to help the organization implement strategy, carry out fundamental change, and address organizational effectiveness issues. There has been an increase in the skills required in almost all areas: business partnering, change management, teaming, and deep human resources functional knowledge. The human resources function appears to be at the very beginning of determining the best way to configure these skills and roles to meet the needs of the business in a cost efficient way. Thus, we can expect more change in the design of the human resources organization in the future and especially in its relationship to the operating organization.

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