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**HUMAN RESOURCES MANAGEMENT:  
NEW CONSULTING OPPORTUNITIES**

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## **Human Resources Management: New Consulting Opportunities**

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The future of HR consulting is inseparable from the future of the HR function in organizations. There is little doubt in our minds that the ways in which the HR function is managed, positioned and operates in corporations today will change dramatically over the next decade and that these changes will affect HR consulting. Major changes are already occurring because of the willingness of companies to outsource functions that are not viewed as core to their missions, the increasing prevalence of electronic services, the complexity and variety of new organizational forms, and the criticality of human capital for competing in the knowledge economy.

We are entering, or are already in, a time of significant upheaval in the work and responsibilities of internal HR functions, as well as in the services and value that HR consulting firms can and will provide to companies. Although it is not clear how these many changes will settle out, it is clear is that there will still be valuable HR work to be performed, and that there will be a significant difference between the work being done by HR functions in companies today and that which will be performed by them in the future. As a result of this transformation in HR activities new major opportunities for HR consulting will develop.

### **Cost of HR**

The HR function in major corporations has a long history of offering administrative services, while delivering little of value with respect to furthering the strategy of companies. HR is typically positioned in companies as a cost center with a ratio of one HR employee to every 100 employees.<sup>1</sup> The cost of HR administration is estimated to range from \$900 to as much as

\$4,000 per employee in large corporations. What do organizations get for this high cost? The evidence suggests that HR remains a low profile maintenance function delivering numerous administrative services concerned with compensation administration, benefits, employee counseling, staffing, training and development, and on occasions, coaching and career development assistance.<sup>2</sup>

HR has not been seen as a major contributor to business strategy and organizational performance improvement.<sup>3</sup> Line managers have typically not looked to HR for consulting assistance on strategy and organization.<sup>4</sup> Moreover, in many companies, HR is not even particularly good at delivering administrative services. This is not a core priority and competency of the corporation, and as a result the HR function does not possess the expertise and power needed to provide world-class service. In addition, it does not achieve sufficient economies of scale for lowering costs and thereby enabling investment in technology and systems development. As a result, all too often HR ends up as a high-cost, low-quality bureaucratic provider of administrative services – as well as a no-show in the strategic arena.

Most HR functions in large companies have made heavy use of consultants. There is a long history of corporations using consulting firms in the areas of training, compensation administration, benefits and labor law. HR consulting firms range from small boutiques to major consulting companies, such as Towers Perrin, Hewitt, Hay, Watson Wyatt and Mercer, all of which offer a broad range of HR advice and services. But they are all being challenged by tomorrow's HR needs.

### **Changing Landscape for Consultants**

There is already a considerable amount of evidence to indicate that HR's use of consulting firms is changing. For example, the use of outsourcing is clearly growing, particularly

in transactional areas such as benefits administration.<sup>5</sup> This trend mirrors changes that are also occurring in other corporate staff areas; as companies realize that they cannot build world-class capabilities in all areas, they turn to outsourcing in hopes of receiving higher quality and less expensive services.

A second trend lies in the introduction of Electronic HR systems (eHR). Sometimes they are developed internally, but in most cases they are designed and sold by consulting firms.<sup>6</sup> In this area, the HR function is following the path of other staff functions as it takes advantage of sophisticated IT capabilities to reengineer its processes for efficiency and increase the amount of self-service available to managers and employees.

A deeper and more profound trend concerns the use of consultants for improving a company's human capital management. Multiple environmental changes have created a situation in which a company's human capital is increasingly seen as a key source of competitive advantage. Organizations need expert advice on how human capital can affect their business strategies, both in their formulation and implementation.

The creation of successful business strategies depends on the quality of human input, usually from many parties possessing diverse knowledge and information about a complex and uncertain world. The effective execution of a strategy is equally important, depending on the quality of leadership from many managers, as well as in achieving widespread commitment among the workforce. Even when a firm possesses a viable and promising strategy that is well executed, its organization and employees must still be able to withstand and adapt to rapid and unanticipated changes in the marketplace.

Given the changes that are occurring in organizations, many significant opportunities exist for HR consultants to add considerable value. To do so, they must possess the necessary

leading edge knowledge in human capital management and information technology for assisting organizations and their employees to perform more effectively in the future.

### **Human Capital in the Knowledge Economy**

The coming changes in HR and HR consulting are closely tied to the new knowledge economy and information technology. Knowledge workers, tools, and tasks are now more linked than ever before in delivering and increasing value for the firm.<sup>7</sup> Information systems and other tools that embody knowledge have become extensions of knowledge workers who are highly dependent on advanced analysis, modeling, and communication. Knowledge is not limited simply to data or information. Rather, knowledge is “information combined with experience, context, interpretation and reflection”<sup>8</sup> that becomes “anchored in the beliefs and commitment of its holder”<sup>9</sup> through collective sense-making and local learning.<sup>10</sup>

A more extensive discussion of knowledge creation and management is contained elsewhere in this book. Our focus here is on its implications for HR. A key challenge facing HR consultants is to jointly engage with the HR function and other organizational members so that new frameworks, approaches, and tools from the knowledge economy and information technology can become integrated into the knowledge and systems of the organization and its employees.<sup>11</sup> Short of such mutual engagement, the organization will not learn or become more effective.

For example, the human resources of many organizations were dramatically affected by the reengineering movement<sup>12, 13</sup> of the early 1990s. It was predicated not only on the notion that operational processes could be simplified and rationalized to bring more value to the customer, but also on the belief that IT tools could make knowledge and information available where it needed to be applied, and thereby revolutionize the way work is done by employees.

The operational and analytical tools available to knowledge workers empower them to add more value; similarly, knowledge can be encoded in algorithmic form, and electronically conveyed information can be brought directly to the end user to permit self-service — in essence removing the “knowledgeable” middle person in many transactions – and perhaps even eliminating consultants who remain tied to traditional notions of human resources management.

In trying to understand where the knowledge of internal HR professionals should be supplemented by the knowledge of external consultants, it is important to realize that their experience bases and formal education are likely to be quite different. Internal HR professionals often possess deep firm-specific knowledge but limited cross-company experience. They may also have formal training and extensive experience in employee and industrial relations, and human resource systems, but limited business education in general management. External consultants, on the other hand, typically bring strong business education, deeper information technology expertise, and extensive cross-company experience. Where consultants can add value depends on what knowledge and skills already exist in-house, and what additional knowledge and skills are required to effectively manage human capital.

### **Information Technology and Types of HR Services**

Given the close relationship between knowledge, the knowledge worker, and information technology tools, it is not surprising that, in the realm of HR consulting, the information technology needs of the organization have become a big business for consultants. Interestingly, IT is intertwined with many HR capabilities, ranging from the embedding of knowledge into automated HR transactional processes to the provision of sophisticated analytical capabilities to inform the creation and implementation of business strategies.

Exhibit 1 illustrates the close relationship between information technology and the three major roles that HR managers and consultants can play in contributing to the management of human capital in the modern corporation.<sup>14</sup> These three roles range along a continuum from contributing to the company's strategy – highly uncertain, experience-based knowledge work requiring expert judgment – to transactional service work emphasizing production efficiency and service standards reflecting ease of use, responsiveness and accuracy. The three HR roles entail different expertise, different mixes of routine or non-routine knowledge work, and different IT tools.

**(Insert Exhibit 1 about here)**

### **Routine Personnel Services**

As shown in Exhibit 1, the greatest overlap between IT and HR occurs in the routine personnel services role – which involves transactional parts of HR, such as benefits enrollment, claims, payroll, and address changes. Through the automation of these simple transactional processes and by fostering employee self-service, HR can eliminate multiple step paperwork that consumes a large percentage of employee time and can be expensive. Even with the most advanced IT systems there is a need for personally delivered knowledge-based services — often in the form of call centers/help-lines — to deal with complex cases, answer questions, and to teach employees how to use the automated systems.

To date, this routine transactional area is where IT consultants have been active in the design, software development, and implementation of HR systems. There also is a large consulting business in maintaining these systems, reprogramming for changes in the parameters of the system, and upgrading its capabilities. Relevant knowledge and skill for performing these activities is not typically found in traditional HR departments.

## **Business Support**

In the middle column of Exhibit 1 is the HR work involved in developing and administering HR systems and services which support the execution of the company's business strategy, and more generally, its daily business operations. These activities include the design and management of systems to secure needed talent, compensate and motivate people, train and develop them, and place people in the right jobs. It also includes internal consultation to line managers about their human resources needs, questions and issues. These knowledge areas are the ones where HR departments feel most comfortable about their own capabilities and performance.<sup>15</sup>

However, many aspects of HR systems can be codified and automated. Once defined, they are amenable to self-service. For example, computer modeling tools that embed the parameters of the compensation system can be provided to managers to do their own compensation planning – often without involvement from HR professionals. Much of the role that HR has traditionally played in consulting to managers about human resources issues can also be handled by putting information and tools on the web while encouraging self-service. For example, a manager dealing with the potential transfer of an employee might find procedures, criteria and a diagnostic set of questions on the web to help in determining exactly what needs to be done to carry out the transfer.

The development and improvement of HR systems, whether they be automated or not, entails the application of a deep understanding of the principles, regulatory issues, and dynamics of HR systems, especially when crafting systems that support the strategy and the work of the organization. There is a close relationship between the way the work of employees is designed and supportive HR systems such as job grades, career tracks, and incentive methods. Therefore,



the crafting of effective HR systems cannot be accomplished without deep expert knowledge, frequently involving consultants.

Although much of this work is knowledge-based and judgmental, even in this area, IT tools remain relevant. Automation of HR systems and transactions makes possible the systematic tracking and evaluation of various systems, such as in determining the relationship between compensation awards and performance evaluation results. Data-based analyses, tracking, and modeling capabilities can provide a future basis for improving HR systems. These data-based capabilities involve knowledge oriented tools that will become critical to HR's role and effectiveness in the future.

At the bottom of the middle column of Exhibit 1, we again see the need for a new kind of expertise – programming and upgrading the automated systems that are required to operate effectively in a business support and execution role. Again, this is an area where HR departments usually need consultants with considerable IT savvy.

Finally, it can be argued that the knowledge within HR departments is often not adequate when it comes to developing new systems that fit changing business strategies, new organizational designs such as virtual and network organizations, and the redesign of work systems for greater employee involvement. As already noted, there has been, and continues to be, a large market for external consulting services that specialize in the development of new HR systems.

### **Strategic Partner**

The left column of Figure 1 shows the Strategic Partner role, which entails providing strategic advice and expertise including inputting to the organization's business strategy given the human capital issues involved, and playing a key leadership role in developing the

organizational capabilities so that the strategy can be executed. Organization design and change management are key to successful strategy execution. These are areas in which organizations have historically sought external consultation. In large part, this has been because strategic changes, organizational redesigns, and organizational transformation have been viewed as periodic, one-off occurrences. As a result, HR professionals in corporations are unlikely to have deep experience-based knowledge about such fundamental change processes. Deep knowledge can only be developed by working across multiple companies.

The HR function within companies potentially can play a key role in working closely with top management and consultants on strategy issues. There is considerable research to suggest that strategic planning and complex change efforts that do not consider and involve the human element are doomed to failure. HR can assist senior management in seeking out consultants who are especially skillful at including and involving people in strategic planning, organization design and change management. And HR can work closely with these consultants during projects to provide internal knowledge.

Moreover, in today's dynamic world, strategic change appears to be an ongoing occurrence, which allows HR professionals to learn and develop expertise. Increasingly, the organizational effectiveness function in many firms is populated by individuals who have played a role in multiple strategic change efforts, often gained from experience in a number of different companies. Still, consulting firms are likely to have a broader base of cross-company experiences, and to be continually improving the frameworks, tools, and methodologies that they employ in these areas of expertise.

HR can play a vital partner role in the use of information technology for strategic purposes. The ability to track and model the company's talent pool provides HR with compelling

data about whether the human capital of the firm is adequate to enact a strategy, where talent is, and how it might be redeployed in order to carry out a changing strategy. IT tools also can be useful for ongoing sensing of employee reactions to changes that are being implemented, and for communication and solicitation of input to changes. eHR systems can enable two-way communication with employees to help accelerate learning in the organization, and consequently the implementation of fundamental changes.<sup>16</sup> Again, however, the ability to use IT for these purposes depends on access to IT expertise in the human resources domain.

### **Future of Transactional HR Work**

For decades, the type of transactional work performed by HR has largely been paper based and labor intensive. This includes activities involved in advertising and filling a job, the administration of compensation and benefits, preparing personnel policies and distributing them, changing company records to keep up with employee changes, assuring adequate records of performance appraisal, and even purchasing products from vendors. In addition, many kinds of training have been done in essentially a labor-intensive mode even when this learning is of a rote nature.

Today, virtually all of this transactional work can now be done in a self-service mode on computer-based intranet systems. The movement of these transactions to self-service on the web is inevitable, for several reasons. First and foremost, the traditional way this work has been done is costly and, in many instances, slow. It is often justified by emphasizing the importance of personal contact with employees, but it is not clear that this kind of personal contact is even desired by employees, much less worth the costs involved in delivering it.

Some HR administrative functions have already been outsourced to vendors by many organizations. This is particularly true of benefits administration, around which Hewitt, Fidelity

and other consulting firms have built large outsourcing businesses. They offer substantive knowledge about how to create a cost-effective system and they deliver the administrative services. Outsourcers in this area typically operate their own call centers to answer employees' questions and try to migrate the employees they service to web-based interfaces. This is often done by putting kiosks at company locations, or linking companies' PC networks into the outsourcer's computer systems.

There is every reason to believe that virtually all HR transactional work will go on the web and in some cases be outsourced. The reason is simple: HR administration is not a core competency of most organizations. Outsourcers and consulting firms now exist that either have or are developing this core competency.

Of course, companies can choose not to outsource any or all of their HR transactional work but still actively pursue automation. Basically, there are four solutions from which organizations can choose when it comes to utilizing information technology to handle HR administrative tasks. The four choices are home grown, best-in-breed, integrated eHR systems, and outsourcing. They all promise to deliver better HR services at lower costs by using web-based systems, but they go about it in very different ways. Consulting firms are positioning themselves along all of these choices, ranging from the performance of the IT task to the evaluation of alternatives for clients.

### **Home-Grown**

Technology companies, including Dell, HP, Cisco, Sun Microsystems, and Microsoft have developed their own web-based eHR systems. Cisco is perhaps the leader in this field. They have a completely paperless HR system that runs almost entirely on custom software it has developed. The system includes not just transaction work, but moves into the business partnering

role by providing advice for managers on key issues, and offering managers new on-line analytic tools to examine staffing levels, analyze performance management results, and perform a host of other services that have traditionally been obtained through face-to-face consultation with the HR department.

This home-grown approach is probably the least important of the four alternatives, because of its cost and requirements for internal expertise it is never likely to be adopted on a widespread basis. From a company's point of view, the homegrown approach has the advantage of allowing it to custom-design an HR system that provides a unique interface with employees. Perhaps the major consulting opportunity here involves the design and development of the overall HR system and the applications themselves. This is often relatively high-level, high value added consulting and requires consulting firms to possess deep expertise in HR processes and applications development. By teaming up with external consultants, internal HR and IT professionals can combine their in-depth knowledge about the company's needs and capabilities with external expertise.

Home-grown systems are clearly a high-cost solution. The question is whether they are worth this extra cost. Their primary justifications rest on their serving employees better. However, particularly when it comes to transactional services, it is not clear that individuals necessarily want to have a unique interface opportunity; instead, a well-designed, multi-company standardized solution may be all that is needed. Changing an address, for example, is not something where organizations are in a position to create a unique relationship with their employees. In other areas, such as embedding unique analytical tools for management decisions about compensation or staffing, the company may in fact derive a competitive advantage.

## **Best-in-Breed**

An alternative to building a homegrown system from scratch is to buy best-in-breed standard software to do each of the key HR functions. Most companies don't have the expertise or the resources to develop complete eHR applications. There are an increasing number of vendors, however, who can provide software that enables organizations to provide transactional HR services. It may also do some of the more complex advice and knowledge sharing work that has traditionally been provided by the HR staff or by consultants. By choosing solutions from a variety of vendors, and perhaps building some of their own, organizations can build a complete eHR system.

This approach has a number of potential advantages. It can allow organizations to select the best available system to perform each of its HR activities. A combination of software systems can be put together from a variety of vendors to allow a company to create a unique total package of HR systems. It is also possible to combine best-in-breed solutions with home-grown solutions when companies want a unique set of practices in a particular area of HR administration.

A major disadvantage of best-in-breed approaches is that organizations are required to deal with many different vendors and to be sure that the systems are integrated at the software level and in the eyes of employees. The software integration problems can cause major problems for HR in its dealings with the IT function in its company. Not surprisingly, the IT function typically prefers few vendors and already-integrated systems.

Because of the complexity of creating best-in-breed systems, the opportunities for consulting work are substantial. Perhaps the most obvious opportunity is for firms that do software development and possess a deep expertise in such HR processes as compensation

administration, staffing, and training. These firms are in a position to both sell application products to organizations and advise them on how their HR systems should be designed and implemented.

The best-in-breed approach also creates an opportunity for consulting services with respect to how to buy and manage providers of eHR systems. Few HR functions have the capability to make good decisions concerning which system to buy in each of the many areas that need to be web-enabled. The intertwining of HR system capabilities with software applications poses considerable challenges, such as ensuring that the system has flexibility to deal with changes in a company's strategic direction, and anticipating migration from one generation of software to another.

Finally, there is the issue of achieving integration across all the best-in-breed solutions that an organization adopts. This is an area of expertise that may not be present inside an organization; indeed, it is probably best done by consulting firms with web installation and systems integration experience across multiple companies.

### **Integrated eHR Systems**

PeopleSoft and SAP, along with other providers of ERP systems, offer HR administrative applications. Thus, the opportunity exists for companies to have a wall-to-wall information technology installation that handles its HR administrative transactions with integrated software provided by the same vendor. This obviously has the advantage of assuring compatibility, flexibility, and analytical power, and it gives an organization the opportunity to deal with just one vendor. Organization's also can purchase an integrated eHR software package from a non-ERP vendor, although this approach limits the ability to integrate business and human resources

data for analytical purposes, unless additional software integration activities are carried out to link the eHR system to the business reporting systems.

The installation and management of ERP systems is an extremely complex and challenging activity. It requires sophisticated knowledge of software programs as well as the ability to make good decisions about information management and system design. Thus, it is not surprising that virtually every ERP system is installed by a consulting firm, and many are maintained by an outsourcer. Some consulting firms, including Accenture and EDS, have grown to enormous size as a result of their consulting activities in the ERP space. PeopleSoft and SAP also have their own consulting arms to install and maintain their ERP software. There is every reason to believe that these firms will do more and more work in the HR area as more and more ERP systems are utilized to manage the transactional part of HR. Our research suggests that ERP systems are the most common choice of companies that are web-enabling their HR systems.<sup>17</sup>

A number of consulting firms already exist that offer integrated eHR systems that are not part of ERP solutions. For example, Workscape builds internet solutions that provide a variety of administrative services with a particular focus on employee benefits administration. They offer both software solutions and ASP hosting, as well as consulting to assess an organization's environment, how services can best be deployed, and so forth. Other firms are developing a similar model to provide a package of services that allow organizations to purchase whatever eHR services they feel are needed.

Firms purchasing integrated eHR systems face a major decision about whether to convert all of their existing HR systems to the new system, or pay a premium to tailor the new system to fit specialized needs. Consultants can help in evaluating this decision, as well as aid in the tailormaking process if required.



## **Business Process Outsourcing**

The final alternative is to completely outsource HR administrative tasks. This type of business process outsourcing (BPO) already exists with respect to managing data centers and information technology. It is now gaining a foothold in HR administration. Several firms now have contracts with major corporations to run web-based total outsourcing models for HR administration. The outsourcers run call centers as well as design and run eHR systems that deliver a wide range of services to employees. This model moves the majority of personnel services, and many business support and execution tasks, to an external firm. The outsourcing firm supplies the expertise not only in web-based applications, but should possess deep functional HR system design expertise.

The leading business-process outsourcing firm at this point in history is Exult, which combines outsourcing transactional support with consulting services that focus on HR process improvement. In order for business process outsourcing to be successful, it needs not only to be web-enabled, but also to utilize highly efficient and effective processes. If processes are not standardized and efficient, then relatively few economies can be realized by moving HR work from paper to computer-based self-service systems. On the other hand, if a business-process outsourcing firm can bring both process design expertise and web-enabling technology systems to a company, the opportunities for savings are great.

Business process outsourcing firms are potentially in a very good position to learn about the effectiveness of different HR processes. They can gather experience across multiple firms, enabling them to determine which approach to each process is most effective. They can then standardize their systems on a best practice and, as a result, offer organizations cost savings, as

well as process improvement opportunities. In order to do this, however, they have to be skilled as both an outsourcer and a consultant to the organization.

The size of contracts for HR business process outsourcing frequently run into the hundreds of millions of dollars. The contracts include cost reduction guarantees, service guarantees, and a host of other features. They are very complex business transactions, so complex that they raise a key question: who is in a position to negotiate and monitor these contracts? The internal capabilities of most companies in this area are very limited. Executives in the HR function typically know something about what a good process looks like, but may not have the expertise that the business process outsourcer has. Thus, they may be poorly positioned to determine whether the process being recommended by the outsourcer is in fact the best one. They almost certainly have little experience in managing contracts the size of typical BPO contracts, nor an ability to evaluate how well the outsourcer is performing.

The business-process outsourcing model in HR involves a new kind of partnership between the organization and the outsourcer. Both need the other one to be successful. The company using the outsourcer cannot easily change to another outsourcer if it is dissatisfied with the service. A particularly risk is that the outsourcer may go out of business. Thus, companies need their outsourcer to be successful, and the outsourcer needs the company to be successful; otherwise, its reputation will be harmed and it will potentially lose a very important customer.

Because of the complexity and newness of the relationship between companies and their BPO provider, numerous opportunities exist for consulting firms that have expertise in outsourcing. Companies need advice concerning how to evaluate vendors, negotiate contracts, and manage BPO vendors. Finally, consulting help likely will be needed to develop the kind of

teamwork and collaboration between the outsourcer and the company needed to make this complex relationship successful.

Consulting firms that are well positioned to do eHR consulting are likely to see rapid growth in their businesses. There clearly is a need for consulting services with respect to both the design of eHR systems and the management of vendors. Most organizations can profit from consulting help with the integration of eHR systems. But perhaps even more so, they are going to need consulting assistance with respect to how to choose and manage outsourcing firms. The key issues here are dealing with overdependence on the vendor, evaluating the cost effectiveness of various vendors and comparing outsourcers with internal alternatives.

### **Consulting and The Future HR Role in Business Strategy**

For the last decade, the Holy Grail for HR functions in large corporations has been to become a strategic partner. The literature in HR is full of writings that point out the advantages to organizations of HR being a strategic partner as well as the advantages to the HR function.<sup>18, 19</sup> The argument is that given the changes that are occurring with respect to the administrative and transactional parts of HR and the increased strategic criticality of the management of human capital in the knowledge economy, the HR function needs to dramatically change its role in corporations in order to survive as an important function.

Much of the early writing on how HR can become a partner argues that the best way is for HR to focus on aligning the human capital of an organization with its business strategy. This usually means being sure that there is an appropriate reservoir of leadership talent and technical talent to support the direction in which the business is heading. The associated HR activities are depicted in the middle column of figure 1— the business partner and strategy execution role. It includes the development of a talent strategy, and the design and ongoing improvement of

human resource systems that contribute to business performance. There clearly is a demand for this kind of help from the HR function, as senior executives often report that they would like HR to be a partner with them in managing the talent strategy and the human resources development agenda of the organization.<sup>20</sup>

Being a strategy implementation partner requires a broadening of the focus and expertise of HR beyond its traditional functional systems that are associated with human capital development. In particular, strategy implementation often requires the development of new organizational capabilities, and consequently entails organization design, development, and change management activities.<sup>21</sup> Rather than focus primarily on the individual employee's capabilities and motivation, and the job as the unit of analysis, HR must address system-wide requirements. It needs to focus on how a company can organize in a manner that optimally configures activities and utilizes talent to achieve business strategies, and on enabling the organization to make fundamental changes in the logic underpinning the way it functions.

Many HR functions have had organization development groups that profess to have expertise in organization design and development. Most of them, however, have been focused more on training and development than on change management and organization design.

Finally, there is the least developed area of HR acting as a strategic partner: helping develop business strategy. Many of the writings on HR being a strategic partner fail to even mention the potentially important role that HR expertise can play and should play in shaping the business agenda of corporations, particularly when human capital is the critical strategic resource in the firm. Research points out that execution is often the key problem when an organization tries to implement a business strategy.<sup>22</sup> Often execution fails because of the HR talent in the organization, the inability of the organization to change its HR systems to support the business

strategy, and/or because key design features of the organization are barriers to the development of the organizational capabilities required to achieve the new strategy.

Many of the implementation problems with the strategy could be avoided if a realistic assessment is made of the organization's ability to implement the strategy before it is adopted. HR potentially can play a key role in this by identifying the existing performance capabilities of the employees and the organization and inputting this to the strategy process. It also potentially can contribute to the development of new strategic directions for the business by identifying skills and capabilities that the organization has that may not be broadly recognized or currently utilized. If individuals from the HR function in fact understand the business and the capabilities of the organization, and have expertise in diagnosing organizational designs and capabilities, they may be in an unusually good position to recognize and develop promising new strategic directions.

Here again, we see a potentially close interplay between the expertise that is needed to be a strategy partner and information technology tools. With the growth of eHR systems, there is an increasing potential for the analysis of HR data to play a powerful role in both the development and implementation of business strategies. Well-developed eHR systems should allow for employee and workforce analyses that are quite helpful in identifying the feasibility of entering new areas of business as well as developing key organizational capabilities.

eHR systems should be particularly useful in helping strategy driven change management efforts. They can provide powerful data on employee reactions to specific change initiatives, as well as providing mechanisms for two-way communication about the business logic underpinning changes, and the implications of them for employees career paths, rewards, and development. If they include e-training features, eHR systems can also enable rapid

implementation of training and development to support change. Because of the analytic power they can provide with respect to assessing HR programs, eHR systems can be tools during times of change for accelerated learning and improvement of new HR programs that are put in place to support the strategy.

Despite the potential contributions that HR can make to business strategy, there is very little evidence that the internal HR function is becoming more of a strategic partner. This raises the key question of why isn't it changing. There are a number of possible answers to this, many of which have to do with the HR functions, strengths and weaknesses.

On the strength side, HR managers almost always have a fine-grain knowledge of the organizations HR systems and *may* have an understanding of the work of the organization, its culture, and its organizational capabilities--information that could make a significant contribution to the business strategy. On the weakness side, the HR function often has a poor reputation for its ability to deliver on business-related issues. This poor reputation is often well deserved, because individuals in the HR function do not have the business skills or business experiences that are necessary to link HR programs and processes to the business strategy. For most internal HR functions, business strategy, organization design, and change management have not been core competencies.

For some very good reasons, organizations have often looked outside for consulting help when it comes to strategy, organization design and change management. There are some key advantages that strategy consulting firms such as McKinsey and Bain have when it comes to providing the high value added services that are involved in creating and implementing business strategy. They often have as a core competency a focus on business strategy or on organization

design. Their knowledge is based on the opportunities they have to learn from their work with multiple clients.

On the negative side, strategy consulting firms often lack knowledge of human resource management and of the detailed operations of the organization's HR systems. Even firms that specialize in HR strategy and systems may fall short in their understanding of the firm, its culture, and its organizational capabilities. Thus, the knowledge of the internal HR function and of external consultants may be needed.

A strong argument can be made that especially during times of strategic change, the knowledge and world views of the internal function, often limited by exposure only to one company, will be insufficient to guide strategy formulation and execution. The issues are simply too complex, the knowledge base needed too extensive, and the demands too variable for an internal group to ever be staffed to adequately meet the needs of most corporations. In addition, strategic change may require fundamental changes in the way the HR function itself operates and in its understanding of the priorities and criteria for effective human capital management. The introduction of external HR expertise, based on a broader exposure to alternative approaches, may be required to stimulate the learning of new roles, the development of new systems, and new understandings and ways of doing business.

Undoubtedly, there will be considerable variance from firm to firm in just how much strategic HR work is done inside firms and how much is done by consulting firms. One extreme model may have the HR function staffed by just a few senior HR people who are truly part of the senior management team. They, in turn, would manage a number of consulting firm projects that focus on change management, organization design, and business strategy development. At the other extreme would be a situation where a firm has centers of excellence in organization design,

change management and business strategy analysis but selectively uses consulting firms on particular projects and to develop their own internal knowledge base.

### **Implications for HR Consulting**

The HR consulting arena is full of new opportunities for consulting firms. But they will need to carefully assess their strategies and competencies as they position themselves in the future market.

The two drivers of the future market for consulting services are likely to be outsourcing and the knowledge economy. Opportunities for outsourcing growth are extraordinary. And the knowledge economy makes human capital a strong potential competitive advantage in business strategies.

Most likely, the outsourcing of HR transactions will create the greatest disturbance in the structure of the HR consulting market, just as it has done with the outsourcing of e-business, financial data, and logistics consulting over the past decade. The HR outsourcing market is relatively underdeveloped compared to other kinds of information services outsourcing. We predict that most of the administrative aspects of HR will become self-service and web-based, and that the need for software will become enormous. This development will cause all types of HR consultants to rethink their future strategies and offerings.

The human capital work that is involved in developing and implementing business strategy is potentially a significant growth area for consulting firms. As already noted, they have a number of competitive advantages in this area, when they are compared to internal HR groups. It is not clear whether companies will prefer to deal with boutique firms, which specialize in certain parts of the business strategy and strategy implementation process, or with firms that offer services that range from strategy development and analysis, through to implementation.



Among consulting firms we see change in the domains of expertise that are claimed and services offered, as firms move into more and more areas of the HR domain. It is not clear whether the major business strategy firms, McKinsey and Booz•Allen, for example, will continue to develop their practices in the human capital area. They clearly have started to move in this direction in the last few years, recognizing that there is a growth business opportunity here. On the other hand, some traditional HR consulting firms are trying to move into the strategic business arena. There is likely to be a considerable amount of competition among consulting firms for what is obviously a high value added and potentially lucrative growth business.

### **Alternative Strategies**

HR consulting firms must determine how they are going to position themselves in the future market. There are many choices along the value chain of HR consulting. Will they concentrate solely on outsourcing, or combine it with some form of systems evaluation consulting? Or will they forsake outsourcing altogether and focus on strategic HR consulting or some other specialized area? And might it possible to put all types of HR consulting services under one roof?

Recently, a number of consulting firms have begun to specialize in software for performance management, training, compensation administration, career development, and a host of other HR areas. In many respects, these firms are pure software and outsourcing firms rather than consulting firms, but in other respects they are consulting firms. Many offer advice to companies on what are the best processes, what are the best systems, and indeed, many of them act to provide a combination of expertise consulting and outsourcing.

Undoubtedly, there will continue to be a number of very successful but small “boutique” firms that specialize in just one HR area, such as change management, or organization design, or strategic HR. Other firms are likely to move out from their specialties to embrace new areas that are related to their core competence. For example, eHR consulting firms may move upstream to do strategy consulting through using their knowledge of the company’s data systems and processes to argue that they are uniquely positioned to combine local knowledge of the organization’s existing systems with the kinds of data that are needed to deal with strategic issues. To make this move, they will need to add considerable skills in the areas of strategic management, data-mining and data analysis; the possibility of this happening should not be discounted.

Better positioned to move downstream into outsourcing are those large firms that already are active in a combination of change management, organization design, and the design of basic HR transactional processes. They potentially can add outsourcing capability and/or move heavily into the eHR space through providing software and ASP services. We think they are very likely to do this, as these areas are quite attractive and as noted earlier, have considerable growth potential. To do it, they need to develop new core competencies in eHR and s information technology. Acquisitions are a likely route to acquire these skills and services.

There are also likely to be many HR consulting firms that avoid outsourcing but attempt to offer one-stop shopping for high value-added strategic HR services. Not all client organizations, but certainly many, prefer to deal with one vendor in order to get an integrated set of services. One firm that has moved in this direction is the Mercer Consulting Group. They offer strategic consulting, change management consulting, and HR consulting of almost all kinds. The challenge for them and other consulting firms that want to enter this consulting space is to

integrate their own thinking and services. Doing this is not simple, but it has the potential to add considerable value to their offerings and to create a strong position in the marketplace.

Finally, the opportunity exists for firms to become soup-to-nuts providers of HR services; that is, they can provide transaction services as well as strategic and organization design services. The ultimate development of this trend might be a super firm that can handle on an outsourcing basis everything having to do with HR management.

### **Success Factors**

What are the key issues that HR consulting firms need to focus on in order to be successful with their chosen strategies? This varies enormously by the type of services that firms will be offering.

It is likely going to be very difficult for consulting firms to master all the competencies needed to become a full-service provider of HR consulting and outsourcing help. The range of required skills is too great. For those firms choosing to locate themselves mainly in the transactional world, then cost and execution are everything. If they are in the HR strategy area, then intellectual and human capital capabilities are key success factors – these firms will need to be active in research and development, and focused on learning from their consulting efforts. To be an integrated deliverer of services, HR consulting firms must avoid the myopic diseases all too common among HR functions within organizations – that is, the "silo-ing" of specialties that undermine coordination and integration.

Overall, there is every reason to believe that HR consulting is a growth business that will increasingly produce new types of firms as well as new types of services. There will continue to be issues concerning what HR tasks are best done by internal HR functions and what are best done by consulting and outsourcing firms – but this will not retard the growth of consulting

firms. Indeed, our estimate is that organizations, in the majority of cases, will choose to outsource both the design of transactional service systems and also use HR consultants for key parts of business strategies.

## Endnotes

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# Exhibit 1

## Information Technology and Human Resource Management

Strategic Partner Role	Business Support and Execution Role	Personnel Services Role
<p>Data Analysis, Modeling and Simulation Capabilities</p>	<p>H.R. System Administration Employee and Manager Tools, Information and Advice Data and Analysis Tools</p>	<p>Transactional Self-Service Processes</p>
<p>Business Strategy Input HR Strategy Formulation Strategy Implementation Change Management Organization Design</p> <p>Upgrading Analytic Capabilities</p>	<p>H.R. System Development, Learning and Improvement Consultation Talent Strategy and Processes Program and System Upgrades</p>	
		<p>Help-Line Services Program and System Upgrades</p>

Shaded = IT/HR Enabled