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**FROM HUMAN RESOURCE MANAGEMENT  
TO ORGANIZATIONAL EFFECTIVENESS**

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# **FROM HUMAN RESOURCES MANAGEMENT TO ORGANIZATIONAL EFFECTIVENESS**

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For at least the last decade virtually every book, article, and speech on the future of the human resources function in corporations has emphasized the need for change. There is nearly a unanimous view that HR can and should add more value to corporations, and that the best way to do this is by being more of a business partner. In other words, it needs to move beyond performing the many administrative and legally mandated tasks that traditional personnel functions have performed for decades to adding value through directly improving the performance of the business. There also is agreement that they can do this by effective talent management, helping with change management, influence business strategy, and a host of other high-value-added activities that impact organizational effectiveness.

There are a number of strong arguments that can be mustered to support the point that this is a particularly favorable time for HR to become more of a business partner. Many organizations in developed countries now are highly dependent on their human capital for their competitive advantage. The market value of corporations increasingly depends on their intangible assets, such as their knowledge, core competencies, and organizational capabilities (Ulrich and Smallwood, 2003). In addition, change seems to be almost a constant today, so that organizations have a increased level of need for expertise in change management and the implementation of new business policies,

practices, and strategies. Thus, there is a clear need for the kind of business partner services HR could deliver.

The problem is that HR does not seem to be able to effectively position itself as a business partner. Even the most recent studies of its position in corporations suggest that in many organizations it is struggling to be anything more than an administrative function that is viewed as a cost center, rather than as a value-added strategic function (Lawler and Morhman, 2003). This, of course, is in notable contrast to some of the other staff functions of large corporations, most notably finance and marketing; both of which play key strategic roles.

A useful way to analyze the problem HR has in transitioning to a new role is to think of it as a business. The HR function in most corporations has many of the characteristics of a business. It has competitors, both internally and externally, it has products and, of course, it has costs. It also has customers who need a variety of services in order to do their jobs. These customers also have feelings of satisfaction and dissatisfaction with the services offered, and are, in some cases, able to decline to utilize the services that HR offers.

Thinking of HR as a business leads immediately to the critical question, and that is, What products should it offer? Potentially, I believe it can offer three product lines. Table 1 gives a characterization of three potential product lines that the HR function can offer. The first product line is the traditional one that it has offered for decades. It is the bread and butter of the HR function, it is the reason the function was created in the first place. The other two, business partner and strategic partner, are newer, and the ones that

HR seems to have the most trouble delivering. In some corporations it clearly does deliver on the business partner role, but rarely does it deliver on the strategic partner role.

Figures 1 and 2 amplify the distinction between the business and strategic partner roles. It shows that they have some of the same deliverables, but that the strategic partner role does more. It provides strong input and direction to the formation of business strategy, something that does not happen with the business partner role. In order to be able to deliver on this part of the product line HR needs to have good metrics and analytic data about human capital, human capital management, organizational capabilities, and core competencies. These, of course, are also useful in delivering on the business partner role, but in some respects are less important for this role.

### **Organization Design**

If HR is to deliver the three product lines that have been identified, it needs to be organized and structured to do this. Most HR functions are designed to deliver a single product line, HR administrative services. What we know about organization design suggests that if an organization is going to deliver three related, but different, product lines it needs to be structured differently than if it is delivering a single product line. In most cases, relatively independent units need to be established in order to deliver multiple product lines, because the skills, competencies, capabilities and relationships that are required to deliver the product lines are quite different. However, they cannot be entirely independent when they go to the same customer and influence each other, as is the case with the HR function. Admittedly, the customer for administrative services is the entire organization, while the customer for the strategic partner services are likely to be only the

very senior people in the organization. Nevertheless, each product line needs to interface comfortably with and support the others.

Most HR organizations have struggled with the issue of how to organize in order to deliver these three product lines. Indeed, it is quite likely that their failure to organize properly is one of the reasons why they have had trouble developing a high value-added strategic role for the function. I would like to start the analysis of how HR needs to be structured by looking at how it can best deliver each of its three product lines.

### **Administrative Services**

Historically, the administrative services that are delivered by HR organizations have been paper intensive and labor intensive. In many cases the work has been repetitive and high-touch. The HR staff who do this work usually were located close to the customers, that is employees. Over the last few decades, more and more elements of HR administration have been done by outsourcers on a process-by-process basis. The internal HR function, of course, still manages the HR outsourcers, but gains scale by having a common outsourcer across all of their organizations units. Favored candidates for outsourcing have been benefits administration and recruiting.

There are two increasingly popular alternatives to outsourcing HR administration to multiple vendors. Both of these are possible because of the growing capability of eHR systems. Organizations can increasingly create electronically enabled HR systems that are largely self-service when it comes to basic HR administration. There is little doubt that when a strong web-capability is present in a company that this is the cheapest and fastest way to provide HR administrative services.

The key question is not whether e-enabling HR administration is the best solution, it is whether it should be outsourced to an HR business process outsourcer (BPO) or performed internally by corporate level centers of excellence and service centers. In either case, economies of scale can be captured by having common administrative processes across an entire corporation. A organization-wide HRIS system also has the advantage of potentially providing useful human capital data to the HR organization that can be used in its other product lines. It is beyond the scope of this short essay to compare the advantages of an HR BPO approach versus an internally managed eHR system with centers of excellence (for this analysis see Lawler, Ulrich, Fitz-enz, and Madden, 2004). Both are viable approaches to delivering administrative services. They also have comparative advantages and disadvantages. A good guess is that HR BPO will grow rapidly, and ultimately provide lower cost services and, potentially, higher quality services. But, this is yet to be established.

It is worth adding that even if an HR BPO model is chosen an organization needs to maintain expertise in the processes that are outsourced, as well as have the internal capability to evaluate the outsourcers performance both financially and administratively. In short, although HR BPO should lead to a much smaller HR unit concerned with administration, the organization still needs to have a substantial level of expertise in such processes as employee development, benefits administration, compensation, and recruitment. It also needs the ability to analyze the effectiveness of its programs transfer processes from one outsourcer to another, and be able to negotiate service level contracts with outsourcers.

## **Business Partner**

The skills that are needed for HR to provide services concerning business support and execution are significantly different than those needed for personnel services and HR administration. For this reason and a number of others, different people need to be involved, and the organizations structure needs to be designed to provide these services. The structural feature that most organizations have utilized in order to make HR a business partner involves establishing senior HR managers, often referred to as generalists, in most of the key business units of the organization. The idea is that the HR generalist will be the major interface between the HR organization and the business unit. The generalist will be available to help with picking the right HR practices, developing change management strategies, advising on talent development and deployment, and the other HR issues and organizational effectiveness issues that come up as line managers try to implement and effectively manage their business units. Typically, the generalists who are in this role report jointly to the business unit manager, as well as to the HR VP. They, in effect, are the part of the HR function which is responsible for the second product line of the organization.

In order to execute this role effectively HR managers need considerable support. First and foremost, they need to be able to draw on depth expertise in the issues that they confront in their business support activities. This expertise can come from corporate centers of expertise in areas such as change management, leadership development, staffing and metrics and analytics, or it can come from external consultants. Regardless of where the help comes from, it needs to be available, and the organization needs to be

structured and resourced so that the HR generalists in business units have the resources that they need to deliver their product line.

In many cases where the generalist role has been established the generalists have not been able deliver their product line. Often it is because of their skills, particularly their lack of a depth knowledge of the business. But, in many cases, it has to do with the resources that are available to them. They simply do not have the ability to access either the internal resources or the external resources to deliver on some of the complex issues that they face. They also often find it difficult to report to both the HR VP and a business unit head.

Finally, although much of what they need to deliver cannot be delivered by an eHR system, increasingly some of it can. Some of the new products that are available in the world of eHR can help coach line managers on how to handle change, how to do performance management and, generally, how to implement their business plans. Thus, establishing eHR-based systems can help the HR function deliver its business support product line.

### **Strategic Partner**

The strategic partner product line is the one that is least well developed in most corporations, and the newest. It also is the one that has the potential to add the most value. It is rapidly increasing in importance because of the growing importance of intangibles and human capital. Since business strategy is typically developed at the corporate level in most organizations, and the strategy implementation process begins there, this product line needs to be delivered to the senior executives of the corporation. Basically, this product line needs to include input to business strategy, analysis of the



organizations strategic readiness and its strategy implementation. In order to deliver this product line HR needs individuals who can interact with senior executives as well as HR generalists, and who can help with the development and implementation of the strategy. This suggests that there needs to be staff at the corporate level that is focused on strategy analysis and strategy development. In effect, an organizational effectiveness unit that has a small, full-time staff. This unit also needs to be chartered to draw on HR resources (e.g., generalists) from elsewhere in the organization to help with strategy development, and strategy implementation.

What should an organizational effectiveness unit look like? It needs to be a multi-discipline center of excellence that focuses on business strategy, organization design, and human capital development. It should be staffed by individuals who have expertise in business strategy, organization design, organization capability development, knowledge management, HR analytics and metrics, financial modeling, and utility analysis. In short, it should have a broad range of analytic skills so that it can evaluate different strategic options and alternatives for the business, assess how effectively the current strategy is being implemented, and develop recommendations about how to improve the strategic position of the organization and the implementation of its current strategy.

### **Organizational Effectiveness**

Now that we have identified the organizational units that are responsible for delivering the product lines that should be in the HR function, we can address the issue of how the three product lines can be integrated and managed. One alternative, and probably the one that most organizations will choose, is to have all of them report to an HR Vice President. In addition, the HR generalists would report to the head of the unit in

which they are located. This approach keeps in place the traditional position of HR VP as a senior individual who reports to the CEO or COO. An interesting question is whether the head of the three product lines should be called the HR Vice President, or the Chief Organizational Effectiveness Officer, or perhaps OE VP. The latter options might be more descriptive of what the role involves given the fact that it would have all three product lines, not just traditional HR administration reporting to it. It seems like a much superior alternative to having a position called the chief administrative officer to which HR and “other” administrative functions report.

An alternative to having a single head of the three product lines who reports to the CEO or COO would be to have a separate head of the organizational effectiveness unit who reports directly to the CEO while having an HR VP who has responsibility for the business partner relationships and the HR administration product line. Depending on the situation, the HR VP might report to the CEO or to the VP for organizational effectiveness. One precedent for the latter approach is the case of marketing and finance. Marketing and finance have separated themselves from sales and accounting by their reporting relationships. They are typically separate strategic units that play a major role in strategy formulation and development. The transactional work in their areas is done by the accounting function and the sales function. Following that pattern with respect to HR would suggest that the HR administration activities would report in at a lower level than the organizational effectiveness activities. This would create a world in which HR is to organizational effectiveness, as accounting is to finance, and as sales is to marketing. Once and for all, it would recognize the critical role that decisions concerning the

acquisition, development, and organization of human capital play in determining the effectiveness of organizations.

By itself, changing the structure of the HR function is not enough to make it a strategic partner. It is a necessary, but not sufficient, step. New skills and competencies need to be developed. The metrics and analytics that are used by HR need to be expanded and improved upon and, perhaps most important, executives need to see HR as having the ability to be a strategic partner. How can these other changes be made? I am afraid answering that question is beyond the scope of this essay, but a number of the other chapters in this book provide valuable insights.

## References

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**Table 1**

## **HR As a Business With 3 Product Lines**

**I. Basic Administrative Services and Transactions involved with compensating, hiring, training and staffing**

*--- Emphasis on resource efficiency and service quality*

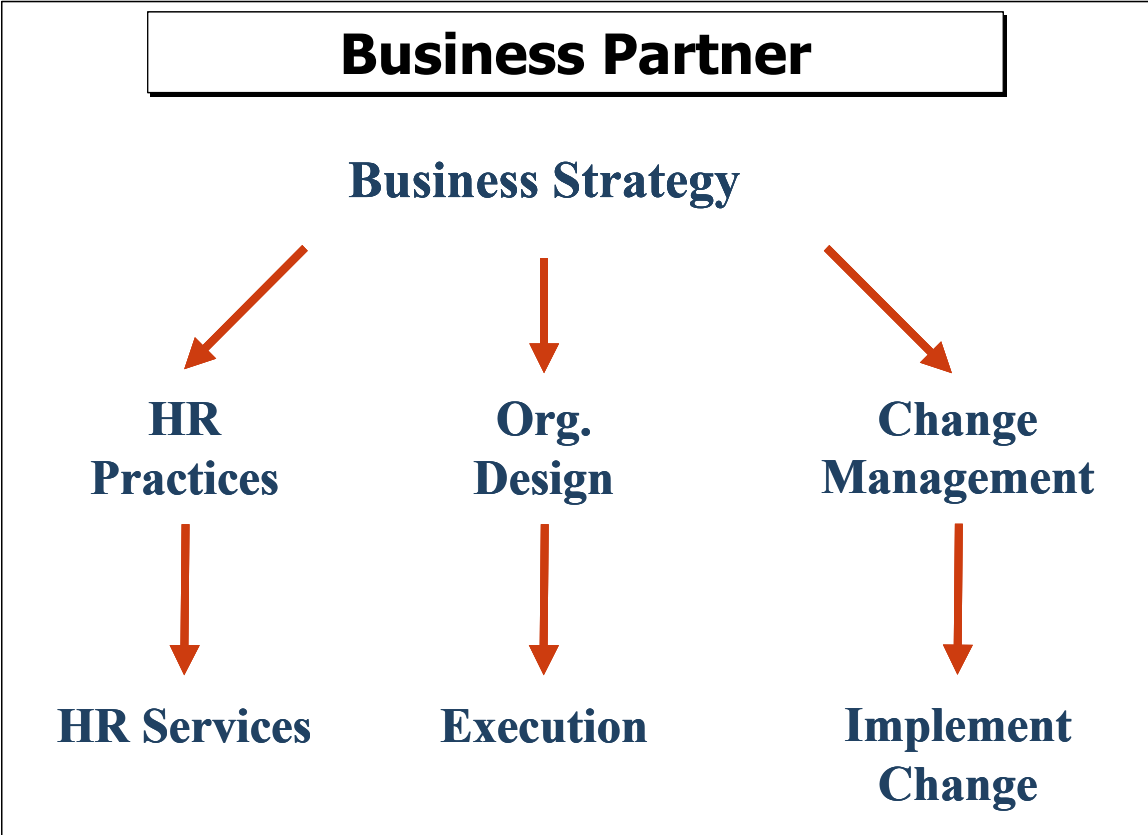
**II. Business Partner Services involved with developing effective HR systems and helping implement business plans, talent management**

*--- Emphasis on knowing the business and exercising influence--solving problems, designing effective systems to ensure needed competencies.*

**III. Strategic Partner Role contributing to business strategy based on considerations of human capital, and organizational capabilities, readiness, developing HR practices as strategic differentiators**

*--- Emphasis on deep and broad knowledge of HR and of the Business, Competition and Market, and business strategies*

**Figure 1**



**Figure 2**

