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HR Should Set the Table

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The time is right for HR to take on an important new role in organizations. It needs to become a major player in the development and implementation of business strategy. This is a role that adds a great deal of value and one that HR can and should perform.

Over the last several decades there has been a great deal of writing about how HR can add more value by becoming a business partner. Most descriptions of the business partner role include implementing business strategy, but they rarely if ever include, developing and determining business strategy. It is time for a change. The conditions are right for HR to go beyond just being at the table when business strategy implementation is discussed. HR can position itself so that it sets the table for business strategy, development and implementation.

Why Now

It is worth briefly noting why the time is right for HR to set the strategy table. There are a number of reasons, the most important of which is that human capital and how well it is organized is increasingly becoming the key to organizations achieving a competitive advantage. As a result, human capital accounts for an increasing percentage of the value of corporations. With respect to business strategy, human capital issues influence both what strategies should be chosen and how strategies should be implemented.

My recent research suggests that in most organizations senior executives recognize the importance of human capital. When asked whether HR issues are critical

to strategy, most senior executives report that they are. In addition, they say they want HR to make a contribution to strategy and to play a role in supporting its implementation.

Despite the logical arguments and support for HR playing a major role in the development of business strategy, my research suggests that in most corporations it is not a major player in the development and implementation of business strategy. In a 2004 survey of major corporations, less than 40% of HR executives surveyed reported that HR is a full partner in strategy development. The results were even worse when their counterparts in management were asked. Less than 25% of senior executives reported that HR is a full partner in the development and implementation of business strategy.

There are a number of reasons why HR has not been a major player in business strategy development:

- HR executives are rarely on corporate boards
- HR executives are not members of the senior management team
- HR is often mired in administrative data and ends up with a largely administrative role
- HR executives have careers that do not expose them to business and business strategy
- HR does not have the kinds of metric and analytic capabilities that finance and marketing have

What HR does have is a strong, compelling and logical case for playing a major role in business strategy development. By itself, this case isn't enough to position HR as a strategic player, but it is a key foundation upon which to build. What does HR need to do in order to get to the strategy table? Or, for that matter, to set the table? My research on

HR as a strategic partner suggests that there are a number of things that HR can do, but often doesn't do that will lead to it having a major role in business strategy. Let's look at the major things that can be done.

Corporate Board

HR executives are rarely on the corporate board of their company. Most boards don't even have an HR expert of any kind as a member. This is a major knowledge void when it comes to the board considering human capital and organizational effectiveness issues. The good news is that it creates an opportunity for internal HR executives to play an important role with the board. My research on boards suggests that they recognize the need for HR expertise and, as a result, HR executives often are asked to attend board meetings. In fact, chief HR executives are the third most active staff executives when it comes to the frequency of attendance at board meetings. The most frequently active is the chief counsel, the second most frequently active is the CFO.

Board members report that the most common issue they ask HR for help with is talent management and compensation. Admittedly, these are not "pure" strategy issues, but they are important issues which can lead to discussions about strategy. They can be a "foot in the door" when it comes to HR showing its knowledge with respect to business strategy and being present at board meetings when strategy is considered, debated and decided upon.

HR executives need to take advantage of their presence in the board room to increase their knowledge and understanding of strategy and to demonstrate the relationship between human capital management decisions and business strategy formulation decisions. If they can do this, they will be in a very favorable position when

it comes to discussions in the senior management team about strategy development and implementation.

Set the Table for Strategy Development

The process that is used to establish business strategy is critical to its success. It should involve data gathering, meetings among senior executives, the work of task forces and analysts and an implementation process. It is a process that needs to be led by the CEO, but it doesn't need to be organized and managed by the CEO. It usually is best organized and managed by someone who understands how an organizational process should be run, particularly one that is human capital and knowledge intensive. Thus, it is a natural role for an HR executive who is interested in and capable in business strategy and organizational development.

When strategies fail, frequently the major cause is improper implementation. More often than not, the implementation process fails to deal effectively with the people issues. As any good organizational development professional will tell you, implementation needs to begin with the formulation process. Involving the right people and having the right input is critical to successful implementation of a business strategy. This is an area where HR executives can help with the organizational development issues in formulating strategy and can play a major role themselves. In other words, they can not only play a role in strategy development, they can set the table for business strategy development.

Develop Metrics and Analytics

Perhaps the major reason why HR isn't involved on an equal footing with finance and marketing when it comes to business strategy is HR's lack of relevant metrics and analytics. It can argue eloquently about the reason for adopting a particular strategy, but unless it brings business numbers to the table, it is unlikely to prevail. This doesn't have to be, HR can develop metrics and analytics that are relevant to and can drive business strategy.

Metrics that report on how effectively the HR function itself is operating is not what is needed. These are helpful, but not the key metrics when it comes to business strategy. What is needed are a set of metrics which indicate the strategic readiness and performance of the organization.

The foundation for most critical HR metrics is information about the kind of talent that is available in the organization. My research clearly indicates that the one area where executives want to hear from the HR function is the availability and readiness of talent. HR needs to respond to this by having a set of metrics which indicate the type of talent that is in the organization, the kind of talent gaps that exist with respect to various strategic directions and, of course, the availability of critical kinds of talent in the labor market. However, talent metrics are not the only kind of metrics that HR should bring to the strategy table.

Talent metrics are a way to establish a strong position at the table because they are what other managers expect HR to provide, but they are not enough. In addition to talent metrics, HR needs to develop organizational effectiveness metrics. That is, metrics which indicate how effectively the talent of an organization is being organized, utilized

and how well it is performing. These metrics need to be tied to the strategic thrusts of the organization and the organizational capabilities that have been identified as key to business strategy. For example, in many organizations a key capability is customer satisfaction. When it is, HR needs to be able to produce data which show the relationship between various organizational practices and the quality and level of customer service. This is a powerful way to establish that HR is not just about talent, it is about organizational performance.

Internal Department Operations

The HR function is a business of its own. It has costs, deliverables and customers. Although there is no operational link between how efficiently and effectively the HR function operates and the strategic role of HR, there is a credibility relationship here. If HR is not run effectively as a department, it damages the credibility of the whole function and makes it difficult for HR to be a strategic partner. What does HR need to do? Simply stated, it needs to become a low cost, high quality provider of HR services. In addition, it needs to deliver credible data which report on its effectiveness.

It is beyond the scope of this discussion to talk about how the HR function should be organized and measured, but it is worth pointing out that an effective design needs to involve the comprehensive use of information technology and the potential outsourcing of a number of administrative tasks.

It is hard for any internal HR function to gain the scale that is necessary in order to be an efficient processor of such HR services as payroll, benefits administration and call centers. One way to gain scale is to outsource all of human resource administration as an increasing number of large corporations are doing. Just in the last few years,

International Paper, Pepsico, Proctor and Gamble and a host of other well known companies have outsourced their HR administration. One advantage they have gained from this is freeing up the time of executives to position HR as a strategic partner.

Develop Business Skills

Making contributions to business strategy requires skills that many HR managers and executives do not have. Simply stated, it requires not only a good understanding of HR strategy, it requires a good understanding of business operations and strategy. What is missing in many HR executives is a good understanding of business strategy and operations. The reason for this is that many HR managers and executives have had a career that involves working only in the HR function.

About 25% of the Fortune 1000 now has HR vice presidents who do not have an HR background. One obvious reason for organizations putting them in charge of HR is to put into HR functions executives who do understand the business and, thus, can make HR more of a strategic partner. However, dropping an executive into HR who doesn't understand HR often is not the right solution. They may be able to influence strategy, but they bring little HR knowledge to the strategy process.

The best answer is to develop HR executives who have a good understanding of the business. This can be done by classroom education, but often that is not enough. HR executives need to rotate out of HR into non-HR jobs at critical development points in their careers. A few corporations have policies that encourage this to happen, but many do not. The result is that individuals at the top of the HR organization often do not have the skills that are needed to make a major contribution to business strategy.

Implications for HR Professionals

Our discussion of what is needed in order for HR to become a strategic partner leads to a number of suggestions for HR professionals who want to play a more strategic role.

Perhaps the most obvious one is that they need to improve their business skills. There are multiple ways for HR executives to manage and plan their careers so that they can get more exposure to business strategy and establish their own credibility as strategic partners. It can be done through course work, rotation into non-HR jobs and a presence on task forces and project teams that are focused on business issues.

For anyone who plays a senior role in an HR function, the staff development implications are clear. Be sure your staff learn about the business and learn about business strategy—these are likely to be highly valued skills as HR emerges as more of a strategic partner. In addition, be sure they understand how human capital metrics and analytics can be used to support the development and implementation of strategy.

Manage Change

A good first step in positioning HR to be a strategic partner is to knock on the strategy door by starting a discussion about the kind of strategic role that it can play and the contributions it can make to the strategy process. Time after time when I have interviewed executives about why HR is not more of a strategic partner, they answer, “because there seems to be little interest on the part of HR in the strategy process.” They often go on to point out their strategy discussions do often involve issues of human capital and organization change and development and that they could use input from a knowledgeable HR expert. In fact, in some cases they even invite consultants in to provide just this kind of expertise. Obviously, the internal HR executives in these

organizations are missing a great opportunity to contribute value to the corporation and to improve their own and their function's position in the organization.

A good second step may be to organize the strategy formulation process or bring data about organizational capabilities and human capital to strategy discussions and to board meetings. If the senior HR executive is not attending board meetings, this may also be a place to initiate change. In addition to helping the board with recruiting and compensation, HR executives can push for a presence when the discussion focuses on strategy formulation and implementation. In particular, they can and should ask to make presentations about strategic readiness and human capital management.

The Future of HR and Business Strategy

Given the importance of human capital in major corporations, there is no doubt that strategy increasingly will involve critical human capital and organizational effectiveness issues. Thus, the question is not whether strategy formulation and implementation will consider human capital, it is how effective it will be in considering the human capital issues and what kind of expertise will be at the strategy table.

A strong case can be made for having the leadership of the HR function at the table if it has the right metrics as well as knowledge of the business and organizational effectiveness. Strategy formulation is a high value added process that HR functions can benefit from being involved in and their participation can benefit their organizations. They are the best positioned group to deal with the human capital and organizational issues involved in strategy. In too many organizations, HR doesn't have what it takes to be a strategic partner and, as a result, strategy is formulated without the right human

capital inputs. This needs to change for both the good of the HR function and organizations.