

C

E



Center for
Effective
Organizations

**WHAT MAKES HR A STRATEGIC
PARTNER?**

**CEO PUBLICATION
G 09-01 (555)**

EDWARD E. LAWLER III

*Center for Effective Organizations
Marshall School of Business
University of Southern California*

JOHN W. BOUDREAU

*Center for Effective Organizations
Marshall School of Business
University of Southern California*

What Makes HR a Strategic Partner?

Edward E. Lawler III

Center for Effective Organizations
University of Southern California
3415 S. Figueroa Street., #200
Los Angeles, CA 90089-0871
Tel: 213-740-9814
Email: elawler@marshall.usc.edu

John W. Boudreau

Center for Effective Organizations
University of Southern California

What Makes HR a Strategic Partner?

Edward E. Lawler III and John W. Boudreau

Executive Summary

For several decades, the HR function in corporations has been encouraged to become a strategic partner. Data from a longitudinal study of large corporations suggest that HR is not now a strategic partner and that little or no movement toward it becoming one has occurred. An analysis of what HR can do to become a strategic partner shows some clear actions that HR can take. These include talent development in HR, creating corporate centers of excellence, developing the right metrics and analytics, and perhaps most important, understanding how human capital management impacts business results. The results also show that there are a number of strategy activities that HR can be involved in and that to some degree, different factors influence how much HR is involved in each of them.

What Makes HR a Strategic Partner?

Edward E. Lawler III and John W. Boudreau

The HR function has at least three identifiable roles that it can play. Its longest-running role is the delivery of clerical and administrative services, often consisting of satisfying legal and administrative compliance requirements. During the last several decades HR has been encouraged to increase its activities in a second role - business partner. In this role, HR is expected to implement and deliver HR practices and services that support the organization's business model and meet the demands of managers and employees. The last ten years have seen an increasing call for HR to take on a third role – strategic partner. In this role HR is a member of the senior management team and is directly involved in the major business decisions of the organization, including the formation of strategy, the design of the organization and the implementation of the business model (Lawler, Boudreau & Mohrman, 2006). These three roles can also be thought of as corresponding to a paradigm reflecting compliance, services and decisions, respectively (Boudreau & Ramstad, 2007).

The case for HR being a strategic partner is becoming stronger, as it rests on the reality that human capital and how it is organized are increasingly pivotal to organization effectiveness. There is ample evidence that how human capital is recruited, developed, organized and managed has a direct and strong influence on organizational performance (Huselid, 1995; Lawler, Mohrman, & Benson, 2001; Combs, Youngmei, Hall, & Ketchen, 2006). Thus HR leaders can make important contributions to strategy development and implementation as well as improve the quality of decisions related to strategy and talent.

It is one thing to say that HR should be a strategic partner; it is quite another to define what that looks like and what it takes to make it happen. In this article we present data from a

continuing study of the role of HR in large U.S. corporations. The study is a joint effort of the Human Resource Planning Society (HRPS) and the Center for Effective Organizations at the University of Southern California. It began with a survey of HR executives in 1995, and has continued with surveys every three years since then. The most recent data were collected in 2007. In 2007, surveys were completed by senior HR leaders in 106 large U.S. corporations. A full report of the data gathered can be found in Lawler and Boudreau (2009). A major focus of the study is examining the strategic role of HR, including whether HR is becoming more of a strategic business partner, and what determines HR's role in the strategy process. Those results are the focus of this article.

HR Strategic Partnership Both General and Specific

Our study examines the overall strategic role of HR and it also examines specific strategic activities that HR leaders can engage in, including such things as defining and choosing strategy options, designing the organization structure to support strategy, and evaluating merger and acquisition opportunities. As we shall see, the factors associated with HR's overall role in strategy are often similar to those for specific strategic activities, but in notable cases there are differences. Certain HR skills, activities and organization design elements offer unique opportunities for enhanced contributions in specific strategy areas.

HR's Overall Role in Strategy

In our last four surveys, we asked HR executives to describe the strategic role of HR based on four descriptions. The results are presented in Exhibit 1. They show that HR does have a role in strategy but that it is usually not as a full partner. The most common role is an input role, which most likely means that HR is asked for data and opinion when it comes to formulating strategy.

EXHIBIT 1. HR'S ROLE IN STRATEGY

ROLE IN STRATEGY	1998	2001	2004	2007
No Role	4.2	3.4	2.0	5.7
Implementation Role	16.8	11.6	12.2	17.0
Input Role	49.6	43.8	45.9	45.3
Full Partner	29.4	41.1	39.8	32.1
MEAN¹	3.0	3.2	3.2	3.0

¹Response Scale: 1 = No Role to 4 = Full Partner

The trend from 1998 to 2007 shows no increase in HR's role in strategy. Indeed, the data shows a small decrease from 2004 to 2007 and almost identical levels in 1998 and 2007. These data clearly suggest that HR is not making the kinds of progress that numerous consultants and academics often suggest it should make.

Strategy Activities

Another way to determine the evolution of HR's strategic role is to examine specific strategy activities that HR can undertake. Exhibit 2 shows the extent to which HR leaders reported engaging in the eight strategy activities we included in our 2004 and 2007 surveys. There is considerable variation across these eight activities.

EXHIBIT 2. BUSINESS STRATEGY ACTIVITIES

STRATEGY ACTIVITIES	MEAN (2004)	MEAN (2007)	Correlation with HR Role in Strategy (2007)
Identify or design strategy options	2.9	3.0	.66***
Decide among the best strategy options	3.0	3.1	.67***
Plan the implementation of strategy	3.6	3.8	.38***
Design the organization structure to implement strategy	3.8	3.9	.63***
Identify new business opportunities	2.0	2.2	.55***
Assess possible merger, acquisition or divestiture strategies	2.9	3.0	.53***

Response Scale: 1 = Little or No Extent; 2 = Some Extent; 3 = Moderate Extent; 4 = Great Extent; 5 = Very Great Extent

Significance Level: * $p \leq .05$ ** $p \leq .01$ *** $p \leq .001$

HR is most active in organization design for strategy implementation. Planning for implementation is also a high activity area. The high ratings given to these activities suggest that HR is most active in strategy implementation. When it comes to strategy development, the ratings are significantly lower, particularly for new business opportunities.

While one might argue that new business opportunities is an area that is far away from HR’s usual role, it is not necessarily the case that HR should play little or no role here. An HR function which understands its talent pool and the capabilities of its organization may well be able to uncover untapped business opportunities. For example, IBM and other organizations have created new businesses providing consulting and the outsourcing of HR services, based in part on the capabilities of their HR organization.

The results in Exhibit 2 show little change from 2004 to 2007 in HR strategy activities. There is a slight tendency for strategy activities to increase, but none of the differences are statistically significant. This is consistent with the finding in Exhibit 1, suggesting that HR’s overall role in strategy has not changed significantly since 1998.

Exhibit 2 also shows the correlations between HR's overall role in strategy (the question in Exhibit 1) and its involvement in individual strategy activities. The correlations are all high and statistically significant. The lowest, but still significant correlation is for planning the implementation of strategy. Apparently all of these strategy activities are associated with HR playing a strong strategic partner role.

The strong associations in Exhibit 2 do not establish a causal direction. It is impossible to tell whether performing these strategy activities leads to HR having a deeper strategic partnership, or if HR organizations that are strong partners acquire the opportunity to engage in these activities. The data may well reflect an incremental approach where the HR organization shows it can do some of these activities, which leads to additional opportunities to act as a strategic partner, which in turn leads to opportunities to do more of the high-level strategy activities.

If performing these activities affects the strategic role that HR plays, a strong case can be made for HR organizations performing them. Increasing these activities is widely regarded as a function of having HR leaders with the capability to understand, shape and influence strategy (Ulrich, Brockbank, Johnson, Sandholtz, & Younger, 2008). However, we would suggest that it is also a function of the mindset of an organization's leaders, and their willingness to integrate talent and organization considerations seamlessly into the strategy process (Boudreau & Ramstad, 2007; Lawler, 2008).

HR Organization

The design and operation of the HR function is one potential determinant of the type of role HR plays in strategy. Exhibit 3 shows the correlations between HR's role in strategy and five dimensions of the HR organization's design. The exhibit also shows the relationship

between the HR organization design dimensions and the strategy activities reported in Exhibit 2. In the exhibit, **Service Teams** refers to creating centers of specialized expertise as well as central teams providing service and support to different parts of the organization; **Decentralization** refers to placing HR resources throughout the organization; **Resource Efficiency** refers to managing the HR organization; **Information Technology** concerns outsourcing and transactional activities being done on-line; and **HR Talent Development** refers to rotating individuals into and out of HR as well as rotating individuals within HR.

EXHIBIT 3. HR ORGANIZATION

HR ORGANIZATION ¹	HR's Role in Strategy	STRATEGY ACTIVITIES					
		Identify or design strategy options	Decide among the best strategy options	Plan the implementation of strategy	Design the organization structure to implement strategy	Identify new business opportunities	Assess possible merger, acquisition or divestiture strategies
Service Teams	.38***	.23*	.28**	.35***	.39***	.23*	.26**
Decentralization	.08	.18	.16	.13	.15	.20*	.22*
Resource Efficiency	.07	.06	.03	-.03	-.13	.03	.06
Information Technology	.28**	.18	.13	.13	.04	.27**	.07
HR Talent Development	.37***	.41***	.29**	.20*	.17	.34***	.22*

¹ Scales based on factor analysis of 16 items.

Significance Level: * $p \leq .05$ ** $p \leq .01$ *** $p \leq .001$

The pattern of correlations in Exhibit 3 shows that the more the HR organization has service teams, advanced information technology and talent development for HR professionals, the more HR is a strategic partner. These HR organization dimensions most likely correlate positively with the degree to which HR is a strategic partner because they place senior HR people near strategic decision making processes (service teams usually are located at the headquarters or enterprise level), and they equip HR leaders to participate actively in discussions

and decisions involving strategy (developing HR talent to better understand strategy, and having information technology to connect HR and enterprise data).

The existence of service teams is significantly correlated with all of the strategy activities. It may be that establishing service teams offers an opportunity to concentrate resources on building a high level of functional expertise, rather than diffusing such investments across many business units. Strong functional expertise at the enterprise level may open the door to more active strategy shaping activities.

HR talent development is associated with virtually all of the strategy activities. This suggests that investments in HR functional competencies as well as strategic and business capability may lead to more opportunities to play a formative role in business strategy. Interestingly, the only exception to positive associations with HR talent development is with designing the organization structure to implement strategy. This may be due to organization design work occurring in a separate organization from the HR organization, and thus talent development in HR may not encompass organization design (Mohrman, 2008).

Decentralization relates significantly to identifying new business opportunities and assessing merger-acquisition-divestiture strategies, but not to other strategic activities. This suggests that pushing HR resources and support out to business units may place HR leaders in positions where they have the opportunity to understand those unit-level competitive environments which determine what new business development opportunities exist, and their value.

Resource efficiency is not significantly associated with any of the strategic activities. This suggests that while resource efficiency can contribute to reduced costs, it does not in and of itself lead to the competencies, proximity and processes that connect HR to strategy.

Decentralization and resource efficiency can be valuable, but our results suggest that the extent of strategy involvement depends more on proximity, capability and information.

We see this theme in other research results as well. Boudreau and Ramstad (2007) and Lawler (2008) strongly suggest that a significant factor enhancing the strategic evolution of HR is insuring that HR strategy processes are appropriately timed and designed, so that they can have input to the broader strategy and planning processes of the organization.

Information Systems

Many organizations are awash in scorecards, data, and information systems capable of generating statistics on the workforce, and relating those statistics to information from other areas of the business. Yet, when we asked HR leaders to rate the extent to which their HR information systems were effective, their responses averaged just 2.9 on a scale where 1=little or no extent, 3=moderate extent, and 5=great extent. Moreover, differences in HR information system effectiveness are not significantly associated with HR's strategic role ($r = .10$). Even with notable advances in technology and metrics sophistication, it appears HR has not created effective measurement and analytic systems. It also appears that the effectiveness of HR's information systems does not drive HR's strategic role in organizations.

There are many possible reasons for the relative low effectiveness of HR information systems. It may be that HR leaders are unaccustomed to using HR information, and fail to connect them to strategic issues. Another possibility is that HR measurement and analytics may be focused on areas that are not related to HR's strategic role, such as the efficiency of HR practices and programs.

Metrics and Analytics

In our survey, we asked HR leaders to consider the nature of their measurement and analytic systems. We divided the measures into three categories: efficiency, effectiveness and impact. Exhibit 4 shows the relationships between the three categories and HR's strategic role.

Efficiency measures the relationship between resources that HR uses, and the programs and practices that it creates. **Effectiveness** measures the relationship between HR programs and their effects on those that receive them. **Impact** measures the relationship between the effects of HR programs and the pivotal elements of business success.

EXHIBIT 4. METRICS AND ANALYTICS

METRICS AND ANALYTICS	HR's Role in Strategy	STRATEGY ACTIVITIES					
		Identify or design strategy options	Decide among the best strategy options	Plan the implementation of strategy	Design the organization structure to implement strategy	Identify new business opportunities	Assess possible merger, acquisition or divestiture strategies
EFFICIENCY							
Measure the financial efficiency of HR operations (e.g. cost-per-hire, time-to-fill, training costs?)	.34***	.29**	.30**	.26*	.36***	.33***	.20
Collect metrics that measure the cost of providing HR programs and processes?	.31**	.29**	.31**	.39***	.39***	.30**	.34***
Benchmark analytics and measures against data from outside organizations (e.g. Saratoga, Mercer, Hewitt, etc.)?	.02	.05	-.02	.12	.16	.08	.10
EFFECTIVENESS							
Use HR dashboards or scorecards?	.18	.33***	.28**	.23*	.23*	.41***	.20
Measure the specific effects of HR programs (such as, learning from training, motivation from rewards, validity of tests, etc.)?	.33***	.29**	.26*	.34***	.41***	.26*	.19
Have the capability to conduct cost-benefit analyses (also called utility analyses) of HR programs?	.12	.28**	.24*	.17	.25*	.24*	.24*
IMPACT							
Measure the business impact of HR programs and processes?	.29**	.38***	.41***	.36***	.47***	.37***	.43***
Measure the quality of the talent decisions made by non-HR leaders?	.22*	.25*	.26*	.08	.21*	.27**	.21*
Measure the business impact of high versus low performance in jobs?	.30**	.28**	.23*	.12	.19	.33***	.28**

Significance Level: * $p \leq .05$ ** $p \leq .01$ *** $p \leq .001$

The pattern of associations suggests that HR’s strategic role is related to at least one element in each category. Thus, as with other corporate staff functions (e.g., Finance and Marketing), it appears that a complete measurement model should include elements of all three categories. When we look at the strategy activities shown in Exhibit 4, only the item reflecting

the use of benchmarks fails to relate to HR's role and to any of the activities. This is in stark contrast to the other items, and suggests that benchmarking does not produce strategic insights, even if it is valuable for understanding the relative position of an organization.

The use of dashboards or scorecards, and the ability to calculate cost-benefit analysis of HR programs are not significantly related to HR's strategic role, though they do relate to individual strategy activities. This is somewhat surprising since dashboards are often constructed in an attempt to better relate investments in HR to strategic outcomes. Despite this, our results suggest that such efforts may not yet be powerful drivers of HR's overall strategic role

Looking at the strategic activities, there is no pattern of different features of the measurement system relating to some activities more than others. Rather, it appears that HR's role in these strategic activities is generally significantly associated with the extent to which measurement systems reflect efficiency, effectiveness and impact.

We cannot determine causal direction, so it may be that measurement system elements lead to strategic activity or vice versa. That said, it is true that the more "traditional" elements of measurement, reflected in efficiency and effectiveness, are associated with HR's strategic role. We believe this means that HR leaders can make advances in their strategic role by enhancing any of the three measurement activities. In addition, we believe measurement systems that encompass elements of all three categories may further HR's strategic role more than those that emphasize only one area. It appears that there is value in a holistic approach to HR measurement in which Efficiency measures form a foundation for HR credibility, Effectiveness measures provide tangible evidence of results at the program level, and Impact provides a view of where results have their greatest effect (Cascio & Boudreau, 2008).

Decision Making

One of the ways that HR can add significant value is to improve decision making about human capital. There are a number of ways that HR can accomplish this. The classic approach is for HR to improve compliance with rules and regulations. A more talent focused approach is for HR to improve decisions inside and outside the HR function with respect to how talent is selected, developed and managed. Strategically HR can improve decision making by providing unique insights about the connections between human capital and strategy and by identifying the key leverage points where human capital contributes most to strategic success.

Exhibit 5 presents data based on five questions that reflect the different ways HR can contribute to decision making. Four of the 5 items have statistically significant relationships to the strategy activities as well as HR's role in strategy. Notably, adding value by insuring compliance with rules and guidelines does not show a significant relationship to any of the strategy activities or HR's role in strategy. Undoubtedly, compliance with key rules and regulations is important in virtually all organizations. So, these results may mean that while compliance decision support provides an important baseline, getting better at compliance decisions does not significantly relate to improvements in HR's strategic role.

EXHIBIT 5. DECISION MAKING

		STRATEGY ACTIVITIES					
DECISION MAKING	HR's Role in Strategy	Identify or design strategy options	Decide among the best strategy options	Plan the implementation of strategy	Design the organization structure to implement strategy	Identify new business opportunities	Assess possible merger, acquisition or divestiture strategies
HR leaders identify unique strategy insights by connecting human capital issues to business strategy	.52***	.44***	.38***	.45***	.38***	.38***	.40***
HR leaders have a good understanding about where and why human capital makes the biggest difference in their business	.53***	.45***	.48***	.42***	.45***	.35***	.39***
HR adds value by insuring compliance with rules, laws and guidelines	-.03	.05	.06	-.05	.08	.08	.08
HR adds value by delivering high quality professional practices and services	.32***	.20	.24*	.26*	.28**	.21*	.18
HR adds value by improving talent decisions inside and outside the HR function	.56***	.26*	.37***	.34***	.41***	.39***	.26*

Significance Level: * $p \leq .05$ ** $p \leq .01$ *** $p \leq .001$

It is significant that three of the decision making items are particularly strongly related to HR's role in strategy. HR's leaders identifying unique strategy insights by connecting human capital to business issues, is highly correlated with both HR's role in strategy and all of the strategy activities. This strongly suggests that HR needs to do more than just understand the business; it needs to make specific connections between business issues and how human capital affects them.

Another item that is highly correlated with the strategy activities is "HR leaders have a good understanding about where and why human capital makes the biggest difference in their business". This is different from simply connecting human capital and business outcomes. It relates to identifying where investments in human capital have the largest effects. Isolating the

“pivot points” (Boudreau & Ramstad, 2007) where improving talent and organization quality make the biggest difference to the business, informs choices about where to invest in human capital.

The third item that is correlated with the strategy role activities is the degree to which HR adds value by improving talent decisions within and outside the HR function. This item is highly related to HR’s overall strategic role as well as all of the strategy activities. In some ways, this item reflects a general and high-level objective for HR’s contribution. It is important for HR to insure compliance and deliver professional-level services, but it is more important for the organization to be good at decisions about how to compete for and with talent (Boudreau & Ramstad, 2007; Cascio & Boudreau, 2008; Lawler, 2008). This clearly should be a “sweet” spot for HR. It is a decision area where HR should excel and demonstrate its capability with respect to strategic thinking and strategic decision making. Our results confirm that the better HR is at improving talent decisions, the more it is active in developing business strategy and the more it is a full partner in the business strategy process.

The results for HR adding value by delivering high quality professional practices and services show it is moderately related to HR’s involvement in strategy. Certainly, improving practices and services is important for HR, but by itself does not demonstrate HR capability to bring unique insights to strategic business strategy decision making. When it does this, it is more likely to be a full partner in the business strategy process, and to participate actively in a wide variety of strategy activities.

Skill Satisfaction

In order for HR to have a major role in business strategy it needs to have the right skills. The key question, of course, is what are the right skills? Exhibit 6 shows the relationship

between five kinds of skills and the role that HR plays in strategy. There are significantly different correlations for the skills. Highly correlated with HR’s overall role in strategy are **Business Partner Skills**. Included in this scale are business understanding, strategic planning, organization design and cross functional experience skills. It is hardly surprising that these skills are so strongly related to HR’s role in strategy. They are all critical to the credibility and capability to engage in business decisions, and deliver organization-level designs. It is consistent with the point that HR needs to understand the business as well as how to design organizations that fit the strategy in order to be a strategic partner.

EXHIBIT 6. SKILL SATISFACTION

SKILLS ¹	HR’s Role in Strategy	STRATEGY ACTIVITIES					
		Identify or design strategy options	Decide among the best strategy options	Plan the implementation of strategy	Design the organization structure to implement strategy	Identify new business opportunities	Assess possible merger, acquisition or divestiture strategies
HR Technical Skills	.25*	-.02	.06	.07	.05	.09	.11
Interpersonal Dynamics	.41***	.21*	.21*	.17	.08	.09	.12
Business Partner Skills	.38***	.37***	.34***	.32**	.26*	.33***	.19
Metrics Skills	.18	.34***	.32**	.25*	.23*	.32**	.22*
Managing Outsourcing	.11	.09	.04	.02	.11	.15	.28**

¹ Scales based on factor analysis of 18 items.

Significance Level: * $p \leq .05$ ** $p \leq .01$ *** $p \leq .001$

Two other types of skills are also significantly related to HR’s overall role in strategy. The most strongly correlated is **Interpersonal Dynamics**. This set of skills includes team skills, interpersonal skills, and leadership and management skills. The most likely reason this skill set is so highly correlated with HR’s role in strategy is that these skills are necessary in order for HR

professionals to effectively relate to other executives in the strategy formulation and development process.

It is interesting that interpersonal skills are only slightly correlated with the six strategy activities. This is consistent with the argument that these skills are critical to HR's overall role in the strategy process, but perhaps not as important when it comes to individual strategy activities. The same pattern exists for HR technical skills, which are significantly related to HR's overall role in strategy, but not to any of the individual strategy activities. It may also be that HR's technical expertise is most relevant after the components of the strategy have been determined, rather than as the individual components are being formulated.

The results for **Metrics Skills** are virtually the exact reverse of those for interpersonal dynamics and HR technical skills. Metrics skills are strongly associated with HR's participation in many of the individual strategy activities, but not with HR's overall role in strategy. It is easy to understand why metrics skills are helpful in such areas as identifying new business activities and helping to decide among the best strategy options. In many cases these are decisions that should be and are informed by metrics, data analysis and information technology. They are often the domain of finance and marketing, and take place within paradigms that rely heavily on measurement and analysis. Thus, HR is likely to be involved only to the extent that it can bring numbers and analysis to the table. Indeed, having numbers may be a prerequisite to being allowed to participate.

Why don't metrics skills correlate with HR's overall role in strategy? It seems possible that the broader strategy decisions may rely less on numbers and more on judgment, consensus, and qualitative considerations. If this is the case, then skills such as interpersonal dynamics and

broad business understanding may emerge as more pivotal than the skills associated with measurement and analysis.

Managing Outsourcing is strongly related to only one strategic activity: assessing mergers, acquisitions and divestitures. One reason for this may be that outsourcing decisions regarding HR overlap with many of the elements required to manage cooperative relationships across an organization's boundary. Thus the insights gained from managing outsourcing may well make HR a more valuable contributor to discussions concerning acquisitions, mergers and divestitures. That said, these insights do not appear to lead to a strong role in other activities, nor to a major role for HR in strategy.

Overall, our results have important implications for career planning and skill development in HR. They suggest that while all these skills may be valuable in one or another strategy activity, the importance of skills differ. Thus, the idea of "strategic partnership" might well be more nuanced than it is generally thought to be. Developing a partnership with respect to strategy activities may depend on specific skills such as outsourcing or metrics while developing partnership at the broad strategy-formulation level may be a function of interpersonal capability and general business knowledge and adeptness. Thus, both the opportunities to learn skills and to apply them should be guided by a detailed concept of strategic activities and skills. That said, it is important to recognize that business partner skills seem to be required for almost all types of strategy activities

What it Takes

The results present a clear picture of what is most strongly associated with HR's role as a strategic partner. A pervasive finding is that HR plays a stronger role in strategy the more the function can connect human capital to strategy, and in particular identify where talent and

organization design features make a strategic difference. This pattern emerges in the results for measurement, decision making, and skill sets, but this is not enough. Some of the strongest associations with HR's strategic role are with the ability of HR to provide unique strategy insights, educate non-HR leaders regarding their decisions about human resources, and articulate the logical connections between strategic success and the organization's ability to compete for and with talent.

When it comes to skill satisfaction the results argue for the importance of business partner skills. Having business partner skills is strongly related to HR's role in all of the strategy activities. Metric skills are also very important. Our findings show that many measurement elements are related to HR's strategic role. Measurement activities related to Efficiency, Effectiveness and Impact are all related to one or another element of HR's strategic role or strength in one or more strategy activities.

To be a strategic partner, the HR organization needs to develop its talent through rotation, utilize teams with specialized expertise, have leaders located in business units, and involve line management in HR decision making. As far as metrics and analytics are concerned, HR needs to be able to measure the impact of HR programs and processes. For many specific strategy activities it is also helpful to measure HR costs and create HR dashboards.

When it comes to decision making, the key issue is being able to relate human capital to strategy and show how it makes a difference. This result is hardly surprising since it is a unique and important contribution that HR can make to the strategy formulation and decision process. Yet, it contrasts with a typical approach to strategic relevance, which is to demonstrate business knowledge or to deliver HR practices where they are regarded as most strategic by *line* leaders. Our results suggest instead that HR must build a deeper understanding about where and how

human capital makes a strategic difference, and then educate leaders to understand those connections.

The relationship between the characteristics of the HR function and the degree to which it is involved in different strategy activities shows some interesting nuances. Most of the strategy activities are tied to the same features of the HR function but there are some notable special cases. For example, when it comes to involvement in strategy implementation, HR cost metrics are an important feature, but they are not generally strongly associated with whether HR plays a role in specific strategy activities. This may reflect the importance of understanding and comparing functional program costs when implementing strategy and that functional costs are less directly involved in specific strategy activities. HR involvement in assessing possible mergers, acquisitions and divestitures is strongly associated with outsourcing skill satisfaction, yet such skills are not strongly associated with any other strategy activities.

The relationships that exist with specific strategy activities suggest that there is value in looking beyond the general level of HR involvement in strategy to understand the specific strategy activities where HR can play a vital role. It appears there may be opportunities for HR leaders to contribute to specific strategy activities, based on their expertise, even if they do not have the full suite of experiences and skills needed to contribute to the overall strategy development and implementation process.

With regard to the level of HR effectiveness and the extent to which HR embodies the elements associated with strategic partnership, the data are disappointing. As with past surveys, ratings by both HR and non-HR leaders fall short of what is needed (Lawler, Boudreau, & Mohrman, 2006). There is ample opportunity for the HR profession to enhance its strategic role

by improving upon those functional elements most strongly associated with having a strategic role.

Overall, the road map for HR becoming more of a strategic partner seems clear both with respect to what it needs to do to be involved in a variety of strategic activities and to become a full strategic partner. HR needs to organize itself so that it has skills and expertise at the corporate level. It needs to have metrics and analytics that measure the impact of human capital practices and programs. It needs to improve decisions by bringing HR analysis and knowledge to them. Finally, it needs skill sets that involve organizational design, business strategy and metrics and analytics.

It is easier to point to what HR needs to do than to make it happen. Still, if HR fails to advance, it seems likely that its strategic partnership will remain limited. There is a “stubborn traditionalism” (Boudreau & Ramstad, 2007) that characterizes the HR profession. It is characterized by progress both technically and in the services and programs delivered, but there is a consistent lack of progress in HR’s strategic contribution and influence. Our results reinforce the need for HR to change by not merely improving in areas that have traditionally been HR’s mission, but to extend its paradigm to include measuring, understanding and communicating strategic talent connections, and improving the human capital decisions of leaders in all functions and at all organization levels.

References

- Boudreau, J. W., & Ramstad, P. M. (2007). *Beyond HR: The New Science of Human Capital*. Boston: Harvard Business School Press.
- Cascio, W. F., & Boudreau, J. W. (2008). *Investing in People: Financial Impact of Human Resource Initiatives*. Upper Saddle River, NJ: FT Press.
- Combs, J., Youngmei, L., Hall, A., & Ketchen, D. (2006). How Much Do High-Performance Work Practices Matter? A Meta-Analysis of Their Effects on Organizational Performance. *Personnel Psychology*, 59, 501-528.
- Huselid, M. A., (1995). The Impact of Human Resource Management Practices on Turnover, Productivity, and Corporate Financial Performance. *Academy of Management Journal*, 289, 635-673.
- Lawler, E. E. (2008). *Talent: Making People Your Competitive Advantage*. San Francisco: Jossey-Bass.
- Lawler, E. E., & Boudreau, J.W. (2009). *Achieving Excellence in Human Resources Management: An Assessment of Human Resources Functions*. Stanford, CA: Stanford University Press.
- Lawler, E. E., Boudreau, J.W., & Mohrman, S. A. (2006). *Achieving Strategic Excellence: An Assessment of Human Resource Organizations*. Stanford, CA: Stanford University Press.
- Lawler, E. E., Mohrman, S. A., & Benson, G. (2001). *Organizing for High Performance: Employment Involvement, TQM, Reengineering, and Knowledge Management in the Fortune 1000*. San Francisco: Jossey-Bass.
- Ulrich, D. , Brockbank, W., Johnson, D., Sandholtz, K., & Younger, J. (2008). *HR Competencies: Mastery at the Intersection of People and Business*. Alexandria, VA: Society for Human Resource Management.