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## **What Makes HR Effective?**

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**Edward E. Lawler III**

*Director*

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

**John Boudreau**

*Professor and Research Director  
Center for Effective Organizations  
Marshall School of Business  
University of Southern California*

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## **What Makes HR Effective?**

By Edward E. Lawler III and John W. Boudreau, University of Southern California

What does the HR function of an organization have to do to be a high performer? To determine what makes HR effective, the authors surveyed senior HR executives and other executives from more than 200 U.S. corporations. The web-based survey asked the executives about how HR operates in their organization and how effective it is.

The results of our survey show that there are some key resources and capabilities that HR functions in corporations need to have in order to be effective. All of them are capabilities that HR functions can develop. Let's look at them and why they are associated with HR being a high performer.

### **Key Resources**

Two key resources are needed for HR to be effective: information and talent. As illustrated in Figure 1, high-performance HR functions have a much higher level of skills in the technical, interpersonal, business partner and metrics areas than do low-performance HR functions. For example, in the area of business-partner skills, only 9.5 percent of the low-performing HR functions have high skill levels, while 50 percent of the high-performance functions do. The data also indicate that low-performing and high-performing HR functions can improve the skill level of their members and become more effective as a result. Even the high-performing departments still fall far short of the skill levels that they could have when it comes to business-partner skills and metrics skills. They are much better when it comes to HR technical skills and interpersonal dynamics skills where more than 80 percent of the high-performance functions have high skill levels.

The last decade has seen the widespread adoption of information technology by corporations. In most cases the adoption includes IT programs for the HR area. As illustrated in Figure 2, there is a strong relationship between the amount of HR information system technology a company has and the effectiveness of human resources. Ninety-three percent of companies with complete HR IT systems are high performance, while only 50 percent of those with little IT support are.

The data make a strong case for organizations having an integrated HR information system. It appears to be a key resource in creating an effective HR function. The message is clear: If you want to have a top-performing HR function, you must have an integrated comprehensive IT system. There are a number of likely reasons why this true. HR IT systems are needed to process and manage the vast amount of administrative data that HR has to manage. They are also needed to create an HR function that is evidence-based and uses analytics to implement and support its decisions and its approach to human resources.

### **Time Spent**

There are many competing demands for the time and resources that human resources has. They vary from providing administrative support to being a strategic business partner. The key decision for every HR department is how to spend its time and resources. Should it focus on getting its administrative activities right or should it, as many researchers have suggested, focus on being a business partner.

The results in Figure 3 show that high-performance HR functions spend significantly more of their time on being a strategic business partner than do low-performance HR functions. In fact, they spend more of their time on it than anything else, while low-performance HR functions spend more time being a service provider than on anything else.

Of course, high-performance functions still spend some time on maintaining records and doing traditional HR administrative work, but they spend more time than low-performance HR functions on being a strategic business partner. This result is very much in line with what has been written over the last several decades about what HR functions must do in order to be effective and add significant value to corporations. However, it doesn't tell us how they

should spend their time as a strategic business partner and what capabilities they need to develop so that they can spend their time productively. To answer these key questions we need to look at some additional data.

### **Business Strategy Activities**

There are a number of business strategy activities that are associated with human resources being an effective function. Supporting the implementation of the business strategy and assessing the organization's readiness to implement different strategies are activities that are done much more frequently by effective HR functions.

More effective HR functions also more frequently work with corporate boards on business strategy. Doing this well can make an important contribution to an organization's overall success, so it is not surprising that the best HR functions do it. This is also an area where even the most effective HR organizations can do more; fewer than 50 percent of the high-performance HR functions currently do it.

### **HR Strategy**

There is a strong relationship between the HR strategy of an organization and the effectiveness of its HR function. High-performance HR functions separate themselves from the other HR functions by the strategies they use and develop with respect to talent and HR management. High-performance HR functions have data-based talent strategies that are integrated with the business strategy, while low performers do not.

High-performance HR functions do not rely on best practices or standard policies and operating procedures as the key drivers of how the HR function acts and the policies it has. Instead, they rely on data-driven practices and the organization's business strategy. This allows them to make rigorous data-based decisions about human capital management and to engage in discussions with senior executives that are based on business strategy and data. Not surprisingly, these are the kinds of discussions that lead non-HR executives to have a positive view of human resources and to listen to HR recommendations with respect to talent management and HR policies and practices.

### **Administration and Strategy**

Although they spend less of their time on administration and give more emphasis to strategic talent management, the best HR functions don't neglect basic administration and compliance with rules, laws and regulations. Having quality professional practices and services is a must-do. But the best HR functions don't let this work dominate them. They are able to combine their attention to basic administration with making important strategic inputs that have a positive impact on the future of their organizations. This is obviously not an easy balance to maintain.

When we ask HR executives how they manage the balance between administration and strategy; they always cite the demand character of basic HR administration as a major problem. They report having a constant stream of requests for help with things like posting job openings, discipline, correcting pay checks, scheduling retirement parties and so on. As a result of these administrative demands, they find it difficult to give strategic HR issues the time that they deserve. The best HR organizations, however, seem to find a way to be sure that they have the time.

One approach to being sure HR does key strategic work that the authors found is typical of high-performance HR departments is having a separate corporate-level strategic HR group that is focused on business strategy issues. Many large companies, such as IBM and PepsiCo, have done just this and it has helped them develop a strategic orientation in their HR function.

Having a separate group is a good solution for large organizations, but a difficult one to implement in smaller organizations. They don't have the budget to create separate corporate groups that focus on key strategic issues. They

often have to simply try to influence strategy with the staff they have. Two keys to having an HR function that can manage this balance, of course, is having it staffed by individuals who have strategic skills and having an information system that can capture the key strategic HR data.

## **Conclusion**

Overall, what creates high-effectiveness HR functions is clear. They must be effective administrative- and compliance-oriented functions and strategic partners. The survey data gathered by the authors as part of this study say that most HR departments are good at the administrative activities they perform and perhaps are getting better, as a result of the growing use of the information technology. But they still have considerable ways to go with respect to being effective as a business partner, even though the idea of them being a business partner has been around for several decades. The data provide strong support for the argument that it is important to make human resources a strategic partner. It clearly is associated with human resources being a high-performance function.

Edward E. Lawler III is a distinguished professor at the University of Southern California in Los Angeles. He can be reached at [elawler@marshall.usc.edu](mailto:elawler@marshall.usc.edu).

John W. Boudreau is a professor at University of Southern California in Los Angeles. He can be reached at [jboudreau@marshall.usc.edu](mailto:jboudreau@marshall.usc.edu).

**Figure 1: Skill Satisfaction and HR Effectiveness**

HR Skills	Percent Satisfied with Skills	
	Low Performance <sup>2</sup>	High Performance <sup>3</sup>
HR technical skills	40.6	80.0 <sup>1</sup>
Interpersonal dynamics	44.6	80.7 <sup>1</sup>
Business partner skills	9.5	50.0 <sup>1</sup>
Metrics skills	3.1	39.8 <sup>1</sup>

<sup>1</sup>Significant difference ( $p \leq .05$ ) between low and high performance

<sup>2</sup>1-6 rating on effectiveness scale

<sup>3</sup>7-10 rating on effectiveness scale

**Figure 2: Information System Use and HR Performance**

Information System	Percent High Performance <sup>1</sup>
Completely integrated HR IT system	93.1
Most processes are IT-based but not fully integrated	68.2
Some HR Processes are IT based	37.3
Little IT present in the HR function	50.0
No IT present	0.0

<sup>1</sup>7-10 rating on Effectiveness Scale

**Figure 3: Time Spent and HR Performance**

HR Roles	Percent Time Spent	
	Low Performance <sup>2</sup>	High Performance <sup>3</sup>
Maintaining records	16.7	11.9 <sup>1</sup>
Auditing/controlling	14.9	11.1 <sup>1</sup>
Service provider	31.7	29.6
Development of systems and practices	17.9	16.1
Strategic business partner	18.8	31.3 <sup>1</sup>

<sup>1</sup>Significant difference ( $p \leq .05$ ) between low and high performance

<sup>2</sup>1-6 rating on effectiveness scale

<sup>3</sup>7-10 rating on effectiveness scale

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