

Achieving Strategic Excellence

*An Assessment
of Human Resource
Organizations*

Edward E. Lawler III, John W. Boudreau,
and Susan Albers Mohrman,

*with ALICE YEE MARK, BETH NEILSON, and
NORA OSGANIAN*

Achieving Strategic Excellence

Achieving Strategic Excellence

An Assessment of Human Resource Organizations

***Edward E. Lawler III, John W. Boudreau,
and Susan Albers Mohrman***

with Alice Yee Mark, Beth Neilson, and Nora Osganian

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

*A CEO report of a study funded by the Human Resource Planning Society
and the corporate sponsors of the Center for Effective Organizations*

STANFORD BUSINESS BOOKS
AN IMPRINT OF STANFORD UNIVERSITY PRESS
STANFORD, CALIFORNIA 2006

Stanford University Press

Stanford, California

© 2006 by the Board of Trustees of the Leland Stanford Junior University.

All rights reserved.

No part of this book may be reproduced or transmitted in any form or by any means, electronic or mechanical, including photocopying and recording, or in any information storage or retrieval system without the prior written permission of Stanford University Press.

Printed in the United States of America on acid-free, archival-quality paper

Library of Congress Cataloging-in-Publication Data

Lawler, Edward E.

Achieving strategic excellence : an assessment of human resource organizations / Edward E. Lawler, John W. Boudreau, and Susan Albers Mohrman, with Alice Yee Mark, Beth Neilson, and Nora Osganian.

p. cm.

“Center for Effective Organizations, Marshall School of Business, University of Southern California, a CEO report of a study funded by the Human Resource Planning Society and the corporate sponsors of the Center for Effective Organizations.”

Includes bibliographical references.

ISBN 0-8047-5331-8 (pbk. : alk. paper)

1. Personnel management. 2. Organizational effectiveness. I. Boudreau, John W. II. Mohrman, Susan Albers. III. Mark, Alice Yee. IV. Neilson, Beth. V. Osganian, Nora. VI. Title.

HF5549.L2877 2006

658.3'01—dc22

2005032770

Original Printing 2006

Last figure below indicates year of this printing:

15 14 13 12 11 10 09 08 07 06

Typeset by BookMatters in 10.5/14 Palatino

Special discounts for bulk quantities of Stanford Business Books are available to corporations, professional associations, and other organizations. For details and discount information, contact the special sales department of Stanford University Press. Tel: (650) 736-1783, Fax: (650) 736-1784

CONTENTS	<i>Tables and Exhibits</i>	vii
	<i>Preface</i>	ix
	<i>The Authors</i>	xi
	1 How HR Can Add Value	1
	2 Research Design	12
	3 Role of Human Resources	20
	4 Business Strategy	24
	5 HR Decision Science	32
	6 HR Organizational Design	41
	7 Human Resources Activities	48
	8 Outsourcing	52
	9 Use of Information Technology	59
	10 Effectiveness of Information Systems	64
	11 HR Analytics and Metrics	72
	12 Human Resource Skills	80
	13 Effectiveness of the HR Organization	87
	14 Determinants of HR Effectiveness	93
	15 HR Excellence	104
	<i>References</i>	119
	<i>Appendixes</i>	123

TABLES AND EXHIBITS

TABLES

Table 2.1	HR Generalists and Specialists	16
Table 2.2	Organizational Structure	18
Table 2.3	Strategic Focuses	19
Table 3.1	Percentage of Time Spent on Various HR Roles (2004)	21
Table 3.2	Percentage of Time Spent on Various HR Roles (2001)	21
Table 3.3	Percentage of Time Spent on Various HR Roles (1998)	21
Table 3.4	Percentage of Time Spent on Various HR Roles (1995)	22
Table 3.5	Relationship of Strategic Focuses to HR Roles	23
Table 4.1	HR's Role in Strategy	25
Table 4.2	Strategic Focuses and HR's Role in Strategy	25
Table 4.3	Business Strategy Activities	27
Table 4.4	Relationship of Business Strategy Activities to Strategic Focuses	28
Table 4.5	HR Strategy	29
Table 4.6	Relationship of HR Strategy to Strategic Focuses	30
Table 5.1	HR Decision-making	33
Table 5.2	Relationship of HR Decision-making to Strategic Focuses	37
Table 6.1	HR Organization—Current	42
Table 6.2	Relationship of Strategic Focuses—Current Organization	43
Table 6.3	HR Organization—Future	45
Table 6.4	Relationship of Strategic Focuses—Future Organization	46
Table 7.1	Change in Focus on HR Activities During Past Five to Seven Years	49
Table 7.2	Relationship of Strategic Focuses to HR Activities	50
Table 8.1	Outsourcing Use	53
Table 8.2	Relationship of Strategic Focuses to Outsourcing	55
Table 8.3	Problems in Managing Outsourcing	57
Table 9.1	State of HR Information Technology	60
Table 9.2	IT System HR Activities Done by Employees or Managers	61
Table 9.3	Relationship of Strategic Focuses to IT System Use	63
Table 10.1	HR IT System Effectiveness	65
Table 10.2	Relationship of Strategic Focuses to IT System Effectiveness	66
Table 10.3	Extent of HR IT System Effectiveness	67

Table 10.4	Relationship of Strategic Focuses to HR IT Effectiveness	69
Table 10.5	Relationship of HR IT Effectiveness to HR IT System Use	70
Table 10.6	Relationship of HR IT Effectiveness to State of HR IT	71
Table 11.1	HR Metrics and Analytics Use	73
Table 11.2	HR Metrics and Analytics Use and Strategic Focuses	75
Table 11.3	HR Metrics and Analytics Effectiveness	77
Table 12.1	Satisfaction with Current Skills of the HR Staff	81
Table 12.2	HR Professionals with Necessary Skill Set	82
Table 12.3	Satisfaction with Skills and Knowledge of HR Professional	83
Table 12.4	Relationship of Strategic Focuses to HR Skills Satisfaction	86
Table 13.1	Effectiveness of HR Organization	88
Table 13.2	Importance of HR Performance	91
Table 14.1	Relationship of HR Roles (Time Spent) and HR Effectiveness	94
Table 14.2	Relationship of HR Strategy Activities to HR Effectiveness	94
Table 14.3	Relationship of HR Strategy Items to HR Effectiveness	95
Table 14.4	Relationship of HR Organization to HR Effectiveness	96
Table 14.5	Relationship of HR Activity Changes to HR Effectiveness	97
Table 14.6	Relationship of Outsourcing to HR Effectiveness	97
Table 14.7	Relationship of IT Use to HR Effectiveness	98
Table 14.8	Relationship of IT System Use to HR Effectiveness	99
Table 14.9	Relationship of HR IT Effectiveness to HR Effectiveness	99
Table 14.10	Relationship of HR Metrics and Analytics Use to HR Effectiveness	100
Table 14.11	Relationship of HR Metrics and Analytics Effectiveness to HR Effectiveness	101
Table 14.12	Relationship of Decision Science Sophistication to HR Effectiveness	102
Table 14.13	Relationship of HR Skill Satisfaction to HR Effectiveness	102
EXHIBITS		
Exhibit 1.1	HR Management	3
Exhibit 1.2	Business Partner	3
Exhibit 1.3	Strategic Partner	3
Exhibit 15.1	Factors Associated with HR as a Strategic Partner	108

PREFACE

This is the Center for Effective Organizations' (CEO) fourth national study of the human resources (HR) function in corporations. Like the previous studies, it is focused on measuring whether the HR function is changing and on gauging its effectiveness. The study focuses on the extent to which the HR function is changing to become an effective strategic partner. It also analyzes how organizations can more effectively manage their human capital. The present study focuses on many of the same corporations that we studied in 1995, 1998, and 2001. Thus, it allows us to compare data from our earlier studies with the data we collected in 2004.

We are deeply indebted to the Human Resource Planning Society for its support of all four of our studies. We would also like to thank the Marshall School of Business of the University of Southern California for its continuing support of the activities of CEO. In addition, we would like to thank the corporate sponsors of CEO for their support of the Center and its mission; their support is vital to the overall success of the Center and is directly responsible for enabling us to do the kind of research reported here.

We would also like to thank Dan Canning, Arienne McCracken, and Anjelica Wright for their help in preparing the manuscript.

THE AUTHORS

Edward E. Lawler III is Distinguished Professor of Business and Director of the Center for Effective Organizations in the Marshall School of Business at the University of Southern California. He has been honored as a major contributor to the fields of organizational development, human resources management, organizational behavior, and compensation. He is the author of over three hundred articles and thirty-eight books. His recent books include *Rewarding Excellence* (Jossey-Bass, 2000), *Corporate Boards: New Strategies for Adding Value at the Top* (Jossey-Bass, 2001), *Organizing for High Performance* (Jossey-Bass, 2001), *Treat People Right* (Jossey-Bass, 2003), *Creating a Strategic Human Resources Organization* (Stanford University Press, 2003), *Human Resources Business Process Outsourcing* (Jossey-Bass, 2004), and *Built to Change* (Jossey-Bass, 2006).

John W. Boudreau, Professor and Research Director at the Marshall School of Business and Center for Effective Organizations at University of Southern California, is recognized worldwide for breakthrough research and consulting that bridges human capital, talent, and sustainable competitive advantage. A Fellow of the National Academy of Human Resources, he has written over fifty books and articles, which have been translated into multiple languages. He has won research awards from the Academy of Management and been featured in *Harvard Business Review*, *The Wall Street Journal*, *Fortune*, and *Business Week*.

Susan Albers Mohrman is a Senior Research Scientist at the Center for Effective Organizations at University of Southern California's Marshall School of Business. Her research, publications, and consulting pertain to knowledge and knowledge-creating organizations, human capital and strategic human resource management, team-based organizations, organizational change and learning with emphasis on the implementation of new designs, and organizational design processes. Her books include *Creating a Strategic Human Resources Organization* (2002, with Edward Lawler). She has served on the Board of Governors of the Academy of Management, and has been a board member of and knowledge partner to the Human Resource Planning Society.

Achieving Strategic Excellence

CHAPTER 1

How HR Can Add Value

Global competition, information technology, new knowledge, the increase in knowledge workers, and a host of other business environment changes are forcing organizations to constantly evaluate how they operate. In many cases they have embraced new strategic initiatives and significantly changed how they operate. They are utilizing new technologies, changing their structures, and improving their work processes to respond to an increasingly demanding and global customer base. These initiatives involve fundamental changes that have significant implications for their human capital and their human resources functions.

Human capital management should be an important part of the strategy of any corporation. The annual reports of many corporations argue that their human capital and intellectual property are their most important assets. In many organizations, compensation is one of the largest, if not the largest, cost. In service organizations compensation often represents 70 to 80 percent of the total cost of doing business. Adding the costs of training and other human resources management activities to the compensation costs, we can see that the human resources function often has responsibility for a large portion of an organization's total expenditures.

But the compensation cost of human capital is not the only, or even the most important, consideration. Even when compensation accounts for very little of the cost of doing business, human capital has a significant impact on the performance of an organization (Cascio, 2000). In essence, without effective human capital, organizations are likely to have little or no revenue. Even the most automated production facilities require skilled, motivated employees to operate them. Knowledge work organizations depend on employees to develop, use, and manage their most important asset, knowledge. Thus, although the human capital of a company does not appear on the balance sheet of corporations, it represents an increasingly large percentage of many organizations' market valuation (Lev, 2001).

A growing body of evidence affirms that HR practices can be a value-added function in an organization. The initial work on the relationship between a firm's performance and its HR practices was conducted by Becker and Huselid (1998). In their study of 740 corporations, they found that firms with the greatest intensity of HR practices that reinforce performance had the highest market value per employee. They argued that HR practices are critical in determining the market value of

a corporation and that improvements in HR practices can lead to significant increases in the market value of corporations. They concluded that the best firms are able to achieve both operational and strategic excellence in their HR systems.

Role of the Human Resources Organization

The HR function can add value by adopting a control-and-audit role. But two other roles that it can take on allow it to add still greater value. Lawler (1995) has developed this line of thought by describing the three roles it can take on. The first is the familiar human resources management role (Exhibit 1.1).

The second is the role of business partner (Exhibit 1.2). It emphasizes developing systems and practices to ensure that a company's human resources have the needed competencies and motivation to perform effectively. In this approach, HR has a seat at the table when business issues are discussed and brings an HR perspective to these discussions. When it comes to designing HR systems and practices, this approach focuses on creating systems and practices that support the business strategy. HR also measures the effectiveness of the human capital management practices and focuses on process improvements.

The business partner approach positions the HR function as a value-added part of an organization. It is positioned to contribute to business performance by effectively managing what is the most important capital of most organizations, their human capital. But, this approach may not be one that enables the HR function to add the greatest value. By becoming a strategic partner, HR has the potential to add more value (see Exhibit 1.3).

In acting as a strategic partner, HR plays a role that includes helping the organization develop its strategy. Here, not only does HR have a seat at the strategy table, HR helps to set the table. Boudreau and Ramstad (2005a, 2005b) support this idea by suggesting that strategies can be shaped and enhanced by bringing a human capital decision science to HR's role in strategy.

In the knowledge economy, a firm's strategy must be closely linked to its human talent. Thus, the human resources function must be positioned and designed as a strategic partner that participates in both strategy formulation and implementation. Its expertise in attracting, retaining, developing, deploying, motivating, and organizing human capital is critical to both. Ideally, the HR function should be knowledgeable about the business and expert in organizational and work design issues so that it can help develop needed organizational capabilities and facilitate organizational change as new opportunities become available.

Exhibit 1.1. HR Management

AIMS	Business orientation. Services provided expressed as outputs or products.
PROCESS	Build performance management capabilities. Develop managers: link competencies to job requirements and career development. Succession planning. Enhance organizational change capabilities. Build an organization-wide HR network.
PLANNING	HR (and all other functions) inspect business plans; inputs from HR may be inserted in the planning process.

Exhibit 1.2. Business Partner

AIMS	Line management owns human resources as a part of their role. HR is an integral member of management teams. Culture of the firm evolves to fit with strategy and vision.
PROCESS	Organize HR flexibly around the work to be done (programs and projects, outsourcing). Focus on the development of people and organizations (road maps, teams, organizational design). Leverage competencies, manage learning linkages; build organizational work redesign capabilities.
PLANNING	An integral component of strategic and business planning by the management team.

Exhibit 1.3. Strategic Partner

AIMS	HR is a major influence on business strategy. HR systems drive business performance.
PROCESS	Self-service for transactional work. Transactional work outsourced. Knowledge management. Focus on organization development. Change management. Human resource processes tied to business strategies.
PLANNING	HR is a key contributor to strategic planning and change management.

To be a strategic partner, HR executives need an expert understanding of business strategy, organizational design, and change management, and need to know how integrated human resources practices and strategies can support organizational designs and strategies. This role requires extending HR's focus beyond delivery of HR services and practices to a focus on the quality of decisions about talent, organization, and human capital.

As a strategic partner, HR brings to the table a perspective that is often missing in discussions of business strategy and change—a knowledge of the human capital factors and the organizational changes that are critical to determining whether a strategy can be implemented. Many more strategies fail in execution than in their conception.

Despite compelling arguments supporting human resources management as a key strategic issue in most organizations, human resource executives often are not strategic partners (Lawler, 1995; Brockbank, 1999). All too often, the human resources function is largely an administrative function headed by individuals whose roles are focused on cost control and administrative activities (Ulrich, 1997; Lawler and Mohrman, 2003a; Boudreau and Ramstad, 2005a). Missing almost entirely from the list of HR focuses are key organizational challenges such as improving productivity, increasing quality, facilitating mergers and acquisitions, managing knowledge, implementing change, developing business strategies, and improving the ability of the organization to execute strategies. Since organizations do see these areas as important, the HR function is missing a great opportunity to add value.

There is some evidence that this situation is changing, and that the human resources function is beginning to redefine its role in order to increase the value it adds. The first three phases of the present study (in 1995, 1998, and 2001) found evidence of some change, but notably there was more discussion of change than actual change (Lawler and Mohrman, 2003a).

One possible view of the human resources function of the future is presented in a study of business process outsourcing by Lawler, Ulrich, Fitz-enz, and Madden (2004). It shows how four large corporations (British Petroleum, International Paper, Prudential, and Bank of America) transferred many HR administrative activities to the line, to outside vendors, and to highly efficient processing centers. The HR function was left to focus almost exclusively on business consulting and managing the organization's core competencies. This model is consistent with Ulrich's argument that the HR function needs to be redesigned to operate as a business partner (Ulrich, 1997; Ulrich, Losey, and Lake, 1997). Recently, Ulrich and Brockbank (2005) have argued that the HR function

needs to develop a compelling value proposition that focuses on how it can increase the intangible assets that drive the market value of organizations. Boudreau and Ramstad (1997) note that the HR profession could mature in a way similar to finance and marketing.

A number of recent studies have addressed the new competencies required when the human resources function strives to be a strategic business partner (e.g., Smith and Riley, 1994; Csoka, 1995; Eichinger and Ulrich, 1995; Ulrich, 1997; Csoka and Hackett, 1998; Brockbank and Ulrich, 2003). Identifying these competencies needs to be followed by reorganizing the HR function to develop these competencies and to provide services in a manner that adds value as organizations change their overall architecture and strategy.

Creating Change

Describing the new human resources role and the new competencies HR needs is only the first step in transitioning the HR function to a strategic business partner. For decades, the human resources function has been organized and staffed to carry out administrative activities. Changing that role will require a different mix of activities and will necessitate reconfiguring the HR function to support changing business strategies and organizational designs. It also will require the employees in the HR function to have very different competencies than they traditionally have had.

It is becoming increasingly clear that information technology will play a very important role in the future of the HR function (Lawler, Ulrich, Fitz-enz and Madden, 2004). With HR information technology (IT), administrative tasks that have been traditionally performed by the HR function can be done by employees and managers on a self-service basis. Today's HR IT systems simplify and speed up HR activities such as salary administration, job posting and placement, address changes, family changes, and benefits administration; they can handle virtually every administrative HR task. What is more, these systems are available around the clock and can be accessed from virtually anywhere.

Perhaps the greatest value of HR IT systems will result from enabling the integration and analysis of the HR activities. They have the potential to make HR information much more accessible so that it can be used to guide strategy development and implementation. Metrics can be easily tracked and analyses performed that make it possible for organizations to develop and allocate their human capital more effectively (Boudreau and Ramstad, 2006; Lawler, Levenson, and Boudreau, 2004).

A strong case can be made that HR needs to develop much better metrics and analytics capabilities. Our previous three studies identified