Linking Business Strategy and Human Resources Management

Edward Lawler
Center for Effective Organizations
Marshall School of Business
University of Southern California
Sources of Competitive Advantage

- Natural Resources
- Economic/Financial
- Location/Market Access
- Technology
- Human Assets
- Organizational Capabilities
- Core Competencies
Core Competencies

- Focus: technical and production skills needed to develop and make the firm’s products
- Example: miniaturization, precision manufacturing, imaging, digital signal processing

Organizational Capabilities

- Focus: organizational designs and management practices that enable strategic performance
- Example: customer focus, speed to market, quality
Organizational Capabilities

- Quality Focus
- Quick Response
- Innovation
- Customer Focus
- Stateless/Global
- Partnering
- Change Management
- Learning
- Growth
- Cost Control
- Leadership
OLD: Competitive advantage is in obtaining and allocating low cost financial capital and physical assets.

NEW: Competitive advantage is in obtaining, developing, and allocating human capital and knowledge assets.
Share Value Determinants

- Intangibles account for more of market value: From 20% in 1980 to 40% in 1998 of market value missing without them.

- Investors say non-financial measures important: 35% of investment decisions driven by them.

- Management most important non-financial information.
Importance of Non-Financial Factors to Investors- Oil and Gas

N=275
Source: Ernst & Young

Management
Products & Services
Customer Service
Corporate Culture
Investor Communications
Executive Compensation Policies
New Product Development
Market Position

Percent Change

Short term
Long term
Importance of Non-Financial Factors to Investors - Computer Industry

- Management
- Products & Services
- Customer Service
- Corporate Culture
- Investor Communications
- Executive Compensation Policies
- New Product Development
- Market Position

N=275
Source: Ernst & Young
Executives’ Views of Information

N= 205

Source: Schumann & Associates
Return to Shareholders (1994 - 1999)

Model 1 - Administrative

Aims: Free up the line to focus on the business
Reduces wasted internal energy

Process: Establish policies, rules and systems to create internal equity
Functional orientation - get the basics in place
Personnel administration
Government regulations
Labor relations

Planning: No formal consideration of HR (personnel) factors in the business planning process; post-hoc action planning by HR (personnel) function
“We want to have more people selling instead of watching people sell and fewer human resources people watching -- God only knows what they watch…”

Bob Lipp
Citigroup
Cost Cutter

Fortune Magazine, January 11, 1999
### Two Highest Priorities For The Next 5 Years

<table>
<thead>
<tr>
<th>Benefits Medical</th>
<th>Cases</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Caliber Of Workforce</td>
<td>118</td>
<td>29</td>
</tr>
<tr>
<td>Staff Training</td>
<td>94</td>
<td>23</td>
</tr>
<tr>
<td>Management Development</td>
<td>75</td>
<td>19</td>
</tr>
<tr>
<td>Retention</td>
<td>59</td>
<td>15</td>
</tr>
<tr>
<td>Diversity Of Worker</td>
<td>59</td>
<td>15</td>
</tr>
<tr>
<td>Employee Motivation</td>
<td>34</td>
<td>8</td>
</tr>
<tr>
<td>Innovation/Relevant</td>
<td>34</td>
<td>8</td>
</tr>
<tr>
<td>Productivity</td>
<td>29</td>
<td>7</td>
</tr>
</tbody>
</table>
Model 2 - Human Resource Management

**Aims:**
- Business orientation
- Services provided expressed as outputs or products
- Voice of the Customer

**Process:**
- Build performance management capabilities
- Development of managers - linking competencies to job requirements and career development
- Succession Planning
- Enhancing organization change capabilities
- Building an HR network organization wide

**Planning:**
- Business plans “inspected” by HR (and all other functions); inputs from HR may be inserted in the planning process
Merrill Lynch has an opening for a Director, Executive Development. They would like someone to come in to assess their current executive development and revamp it as necessary in a way that aligns their people with their strategic goals. The job is worldwide and they would like a thought leader to move into the position, a “practical intellectual.” Compensation could go as high as $1,000,000.
Human Resources Management Is Too Important To Be Left To:

- The Human Resources Department
- Line Management
Old

- Strategy
- Advice
- Service

New

- Strategy
- Advice
- Service
- IT Self-Service
- Out Source Shared Services
Model 3 - Business Partner

Aims: Line management owns HR as a part of their role
HR is an integral member of management teams
Culture of the firms evolves to “fit” with strategy and vision

Process: HR organized flexibly around the work to be done (programs and projects, outsourcing)
Focus on the development of people and organizations (road maps, teams, organization designs)
Leveraging competencies, managing learning linkages, building organization work redesign capabilities
Leadership development

Planning: An integral component of strategic business planning by the management team
Business Strategy Is Too Important To Be Left To:

- The Human Resources Department
- Line Management
Model 4 - Strategic Partner

**Aims:**
- HR is 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
- HR processes tied to business strategies

**Planning:**
- HR is key contributor to strategic planning and change management
## Ideal HR Function

<table>
<thead>
<tr>
<th>HR Function</th>
<th>N=232</th>
<th>N=68 USA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Partner Skills</td>
<td>30%</td>
<td>44%</td>
</tr>
<tr>
<td>HR Practices Linked with Strategy</td>
<td>29%</td>
<td>40%</td>
</tr>
<tr>
<td>T&amp;D Linked with Strategy</td>
<td>24%</td>
<td>28%</td>
</tr>
<tr>
<td>Provide “People” Consulting</td>
<td>22%</td>
<td>16%</td>
</tr>
<tr>
<td>Select Best Talent</td>
<td>13%</td>
<td>22%</td>
</tr>
<tr>
<td>High-Commitment Work Environment</td>
<td>11%</td>
<td>13%</td>
</tr>
<tr>
<td>Performance-Enhancing Reward Systems</td>
<td>9%</td>
<td>10%</td>
</tr>
<tr>
<td>Align Culture with Strategies</td>
<td>8%</td>
<td>7%</td>
</tr>
<tr>
<td>Provide Change Management Services</td>
<td>6%</td>
<td>12%</td>
</tr>
</tbody>
</table>

Based on 1999 HRPS SOTA/P Study
## Human Resource Roles

<table>
<thead>
<tr>
<th>Role</th>
<th>Current 1995</th>
<th>Current 1998</th>
<th>5-7 Years Ago 1995</th>
<th>5-7 Years Ago 1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maintaining Records</td>
<td>15.4</td>
<td>16.1</td>
<td>22.9</td>
<td>25.6</td>
</tr>
<tr>
<td>Collect, track and maintain data on employees</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Auditing/Controlling</td>
<td>12.2</td>
<td>11.2</td>
<td>19.5</td>
<td>16.4</td>
</tr>
<tr>
<td>Insure compliance to internal operations, regulations, legal, and union requirements</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HR Service Provider</td>
<td>31.3</td>
<td>35.0</td>
<td>34.3</td>
<td>36.3</td>
</tr>
<tr>
<td>Assist with implementation and administration of HR practices</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Practice Development</td>
<td>18.6</td>
<td>19.3</td>
<td>14.3</td>
<td>14.2</td>
</tr>
<tr>
<td>Develop new HR systems and practices</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Strategic Business Partner</td>
<td>21.9</td>
<td>20.0</td>
<td>10.3</td>
<td>9.5</td>
</tr>
<tr>
<td>Member of the management team. Involved with strategic HR planning, organization design, and strategic change</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
HR and Business Strategy

- No Role in Business Strategy .......................... 4.2%
- Implemented Business Strategy .......................... 16.9%
- Input and Helped Implement Business Strategy .......................... 50.0%
- Full Partner in Development and Implementation .......................... 28.8%

1998
<table>
<thead>
<tr>
<th>Industry</th>
<th>HR Managers</th>
<th>Line Managers</th>
</tr>
</thead>
<tbody>
<tr>
<td>All Industries</td>
<td>76</td>
<td>53</td>
</tr>
<tr>
<td>Manufacturing</td>
<td>76</td>
<td>61</td>
</tr>
<tr>
<td>Engineering/Design Services</td>
<td>55</td>
<td>52</td>
</tr>
<tr>
<td>Insurance/Finance/Real Estate</td>
<td>71</td>
<td>65</td>
</tr>
<tr>
<td>Health Services</td>
<td>85</td>
<td>56</td>
</tr>
<tr>
<td>Government</td>
<td>87</td>
<td>57</td>
</tr>
</tbody>
</table>

Based on SHRM/CCH Survey 1998
Percentage of Corporate Officers Who Strongly Agree

HR should be a partner to me in my efforts to build a stronger executive talent pool

Source: McKinsey War for Talent Corporate officers’ survey
### Extent of Contemporary Approaches

<table>
<thead>
<tr>
<th>Approach</th>
<th>1995</th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shared Services</td>
<td>2.9</td>
<td>3.3</td>
</tr>
<tr>
<td>Joint Line HR Development</td>
<td>3.3</td>
<td>3.3</td>
</tr>
<tr>
<td>Decentralized Generalist</td>
<td>3.6</td>
<td>4.0</td>
</tr>
<tr>
<td>Small Corporate Staff</td>
<td>2.9</td>
<td>2.8</td>
</tr>
<tr>
<td>Some HR Activities by Line Managers</td>
<td>2.6</td>
<td>2.6</td>
</tr>
<tr>
<td>Self-funding HR Services</td>
<td>1.7</td>
<td>1.9</td>
</tr>
<tr>
<td>Rotate People into HR</td>
<td>1.8</td>
<td>1.9</td>
</tr>
<tr>
<td>Rotate HR People out to Other Functions</td>
<td>1.8</td>
<td>2.0</td>
</tr>
</tbody>
</table>

*Scale Response: 1 = Little or No Extent, 2 = Some Extent, 3 = Moderate Extent, 4 = Great Extent, 5 = Very Great Extent*
## Shared Services

<table>
<thead>
<tr>
<th>Service</th>
<th>Not At All</th>
<th>Some</th>
<th>All</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Record Keeping</td>
<td>17</td>
<td>48</td>
<td>35</td>
</tr>
<tr>
<td>Recruitment and Selection</td>
<td>26</td>
<td>57</td>
<td>17</td>
</tr>
<tr>
<td>Career Planning</td>
<td>63</td>
<td>32</td>
<td>6</td>
</tr>
<tr>
<td>Organization Development/Design</td>
<td>41</td>
<td>42</td>
<td>16</td>
</tr>
<tr>
<td>Legal Support</td>
<td>16</td>
<td>26</td>
<td>59</td>
</tr>
<tr>
<td>Affirmative Action</td>
<td>21</td>
<td>42</td>
<td>37</td>
</tr>
<tr>
<td>Union Relations</td>
<td>41</td>
<td>32</td>
<td>27</td>
</tr>
<tr>
<td>Compensation</td>
<td>11</td>
<td>48</td>
<td>41</td>
</tr>
<tr>
<td>Benefits</td>
<td>4</td>
<td>36</td>
<td>60</td>
</tr>
<tr>
<td>Employee Training</td>
<td>22</td>
<td>66</td>
<td>12</td>
</tr>
<tr>
<td>Management Development</td>
<td>24</td>
<td>61</td>
<td>15</td>
</tr>
<tr>
<td>HR Information Systems</td>
<td>9</td>
<td>37</td>
<td>55</td>
</tr>
</tbody>
</table>
### Effectiveness of Shared Services

<table>
<thead>
<tr>
<th>Service</th>
<th>Not Effective</th>
<th>Somewhat Effective</th>
<th>Very Effective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee Record Keeping</td>
<td>5</td>
<td>42</td>
<td>53</td>
</tr>
<tr>
<td>Recruitment and Selection</td>
<td>5</td>
<td>51</td>
<td>44</td>
</tr>
<tr>
<td>Career Planning</td>
<td>26</td>
<td>64</td>
<td>10</td>
</tr>
<tr>
<td>Organization Development/Design</td>
<td>10</td>
<td>60</td>
<td>31</td>
</tr>
<tr>
<td>Legal Support</td>
<td>3</td>
<td>20</td>
<td>77</td>
</tr>
<tr>
<td>Affirmative Action</td>
<td>3</td>
<td>49</td>
<td>49</td>
</tr>
<tr>
<td>Union Relations</td>
<td>2</td>
<td>26</td>
<td>72</td>
</tr>
<tr>
<td>Compensation</td>
<td>0</td>
<td>43</td>
<td>57</td>
</tr>
<tr>
<td>Benefits</td>
<td>0</td>
<td>33</td>
<td>67</td>
</tr>
<tr>
<td>Employee Training</td>
<td>10</td>
<td>61</td>
<td>29</td>
</tr>
<tr>
<td>Management Development</td>
<td>6</td>
<td>63</td>
<td>31</td>
</tr>
<tr>
<td>HR Information Systems</td>
<td>10</td>
<td>61</td>
<td>30</td>
</tr>
</tbody>
</table>
## Outsourcing of Human Resource Practices

<table>
<thead>
<tr>
<th>Service</th>
<th>1995</th>
<th>1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefits</td>
<td>71%</td>
<td>87%</td>
</tr>
<tr>
<td>Employee Education and Training</td>
<td>63%</td>
<td>82%</td>
</tr>
<tr>
<td>Employee Assistance</td>
<td>n/a</td>
<td>79%</td>
</tr>
<tr>
<td>Legal Affairs</td>
<td>39%</td>
<td>60%</td>
</tr>
<tr>
<td>Management Development</td>
<td>47%</td>
<td>60%</td>
</tr>
<tr>
<td>Recruitment</td>
<td>38%</td>
<td>56%</td>
</tr>
<tr>
<td>HR Information Systems</td>
<td>31%</td>
<td>55%</td>
</tr>
<tr>
<td>Organization Development</td>
<td>34%</td>
<td>29%</td>
</tr>
<tr>
<td>Strategic Planning</td>
<td>n/a</td>
<td>9%</td>
</tr>
<tr>
<td>HR Planning</td>
<td>2%</td>
<td>7%</td>
</tr>
</tbody>
</table>
Outsourcing Problems

- Services not as good as promised: 53%
- Resources to manage: 51%
- Cost higher than promised: 47%
- Managing contractors lack skills: 41%
- Contractors don’t know company: 40%
- Switch to new outsources difficult: 37%
- Cannot have HR systems needed: 35%
- Negative reaction from HR employees: 32%
- Negative reaction from business units: 29%
- Negative reaction from employees: 29%
- Loss of competitive advantage: 15%
Traditional

Vice President
Human Resources

Staffing
Compensation & Benefits
Training & Development
Planning
Organizational Development
Business Partner

Vice President
Human Resources

Centers of Excellence
- Rewards
- Staffing
- Training & Development
- Communications

HR Generalists

Service Centers
- Information Technology
- Claims Processing
- Employee Assistance
Front/Back Human Resources Structure

Human Resources Vice President

Centers of Excellence
Transaction Centers
Vendors

Vice President’s L.O.B.

Generalist
Generalist
Generalist
Front/Back HR Key Issues

- HR Practices Fit/Integration
- Line ownership
- Corporate /Generalists Power Balance
- Generalists Going Native
- Specialists Going Corporate
- Purchase Outside
- Sell Outside
## Effectiveness and Time Spent

<table>
<thead>
<tr>
<th>TIME</th>
<th>EFFECTIVENESS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Records</td>
<td>- .35</td>
</tr>
<tr>
<td>Audit/Controlling</td>
<td>- .20</td>
</tr>
<tr>
<td>Services</td>
<td>- .20</td>
</tr>
<tr>
<td>HR System Development</td>
<td>.15</td>
</tr>
<tr>
<td>Partnering</td>
<td>.44</td>
</tr>
</tbody>
</table>
Effectiveness and Activity Increase

Design & Organizational Development  .46
Employee “Care” - .09
Employee & Management Development .16
Recruitment & Selection .17
Compensation .07
HR Information Systems .11
Performance Appraisal .10
Career Planning .07
Union Relations - .14
# Relationship of HR Process Automation to Effectiveness

<table>
<thead>
<tr>
<th>Relationship of HR Process Automation</th>
<th>Mean Effectiveness Rating</th>
</tr>
</thead>
<tbody>
<tr>
<td>Completely Integrated HR Information System</td>
<td>6.6</td>
</tr>
<tr>
<td>Most Processes are Automated but Not Fully Integrated</td>
<td>6.6</td>
</tr>
<tr>
<td>Some HR Processes are Automated</td>
<td>6.0</td>
</tr>
<tr>
<td>Little Automation Present in HR Function</td>
<td>6.4</td>
</tr>
<tr>
<td>No Automation Present</td>
<td>5.9</td>
</tr>
</tbody>
</table>

Response Scale: 1 = Not Meeting Needs, 10 = All Needs Met
eHR will free up HR to be a strategic partner
eHR will obliterate the HR function
In five years HR will be part of the IT Function
## Computer Information Systems by Employees/Managers

<table>
<thead>
<tr>
<th>Service</th>
<th>Computer Systems (Partial/Completely)</th>
<th>System Effectiveness (Very)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Post Job Openings</td>
<td>86%</td>
<td>38%</td>
</tr>
<tr>
<td>Salary Planning/Administration</td>
<td>72%</td>
<td>30%</td>
</tr>
<tr>
<td>Change Benefit Coverage</td>
<td>76%</td>
<td>53%</td>
</tr>
<tr>
<td>Change Address and/or Personal Information</td>
<td>61%</td>
<td>56%</td>
</tr>
<tr>
<td>Apply for a Job</td>
<td>71%</td>
<td>24%</td>
</tr>
<tr>
<td>Obtain Advice and Information on Handling Personnel Issues</td>
<td>46%</td>
<td>12%</td>
</tr>
<tr>
<td>Performance Management</td>
<td>52%</td>
<td>21%</td>
</tr>
<tr>
<td>Career Development Planning</td>
<td>41%</td>
<td>6%</td>
</tr>
</tbody>
</table>

1. Scale Response: 1 = Not at All, 2 = Partially, 3 = Completely
2. Scale Response: 1 = Not Effective, 2 = Somewhat Effective, 3 = Very Effective, 4 = Not Applicable
## Percentage of Surveyed Employers Using Technologies for Various HR Applications

<table>
<thead>
<tr>
<th>HR Application</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate Communications</td>
<td>78%</td>
</tr>
<tr>
<td>Benefits Information</td>
<td>75%</td>
</tr>
<tr>
<td>Job Postings</td>
<td>75%</td>
</tr>
<tr>
<td>Recruiting &amp; Staffing</td>
<td>69%</td>
</tr>
<tr>
<td>Retirement Planning</td>
<td>57%</td>
</tr>
<tr>
<td>Benefits Enrollment</td>
<td>56%</td>
</tr>
<tr>
<td>Performance Appraisal/Management</td>
<td>39%</td>
</tr>
<tr>
<td>Personal Data Changes</td>
<td>38%</td>
</tr>
<tr>
<td>Total Compensation Statements</td>
<td>25%</td>
</tr>
<tr>
<td>New Hire Orientation</td>
<td>20%</td>
</tr>
</tbody>
</table>

*Source: Watson Wyatt 2000*
Vision of Net-Enabled HR

- Individual portals containing all of the key information needed to enhance productivity and satisfaction
  - Real-time business information
  - Knowledge management links to specialized expertise and communities of practice
  - Reinvented and personally tailored HR processes
    - Prompts triggered by life stage events
    - Cisco’s travel reimbursement
    - Trilogy’s reward choices
  - Real-time eLearning
  - Two-way employee communication
  - Productivity enhancing tools for managers and workers
Vision of Net-Enabled HR

- Intranet becomes the focus for strategically managing all aspects of the firm-employee relationship
  - HR links key processes
    - Linking competencies used for recruiting, skill development, promotions
  - Combines HR data with business data
    - e.g. relating employee commitment to customer satisfaction, productivity, turnover rates
The Business Case for eHR-Short Term

- Increase efficiency
  - Cut costs
  - Cut HR staff

- Enhance level of service
  - Better quality information
  - Flexibility of access

- Focus organization on core activities
The Business Case for eHR-Longer Term

- Foster organizational transformation
  - Enhance employees’ Net capability
  - Strengthen the B2E relationship
  - Save employees’ and managers’ time
  - Enable scalable growth
- Enables managing people as a core competence
- Guides business strategy
HR’s New Capability Requirements

- To deliver the strategic B2E vision HR will need to develop a new set of capabilities:
  - Enhanced understanding of the business strategy and processes
  - CRM and branding: internal and external
    - Data mining
  - Technology fluency
  - Building and managing effective strategic supplier relationships
  - Knowledge management
Key Issues – eHR

- Impact on Employees Commitment/Satisfaction
- Impact on Competitive Advantage
- Data Ownership
- Use of Push Technology
- Digital Divide
- Role of IT Function
- Development Approach
- Part of General Portal
- What is Done Best with Personal Contact
- How to Organize HR Function
Approaches to eHR

- Outsource
- Build Own
- Assemble / ASP Modules
- ERP Products
Exult Model

- Sell to Top
- Historical Cost
- Contract and Equity Position
- Process Analysis
- Process Changes
- Gainsharing
- eHR and Call Centers
- Transfer Employees
- Downsize HR
Managing Dualities

Follower — Leader
Reactive — Proactive
Administrator — Strategist
Controller — Business Partner
Conscience — Business Person
Employee Advocate — Manager
Doer — Consultant