THE TRANSFORMATION OF THE HUMAN RESOURCE FUNCTION: RESOLVING THE TENSION BETWEEN A TRADITIONAL ADMINISTRATIVE AND A NEW STRATEGIC ROLE

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Introduction

There is little question that human resource management is undergoing profound change as the 20th century draws to a close. What are the forces for change? Where are human resource management and the human resource (HR) function going? What are the obstacles to getting there? These are the questions I propose to discuss.

Forces for Change

Competition, globalization, and continuous change in markets and technology are the principal reasons for the transformation of human resource management. Additionally, a revolution in capital markets has given shareholders a more powerful voice and has made it possible for them to claim a larger share of the corporation's resources.

As a consequence of these forces corporations are finding themselves in the midst of a revolution in organizing and managing people that will continue well into the twenty-first century. A flatter, less bureaucratic, less hierarchical, faster and more responsive organization is emerging as the model for the future. In such an organization people will be employed in a more *cost effective* manner. More importantly, organizations will have to enhance a number of capabilities and make these the source of their competitive advantage (Beer & Eisenstat, 1996b; Hamel & Prahalad, 1994; Ulrich & Lake, 1990). Far higher levels of (1) *coordination* across functions,

business units, and borders; (2) employee *commitment* to continuous improvement; (3) general management and leadership *competence*; (4) *creativity* and entrepreneurship; and (5) open *communication* will have to be developed. To acquire these capabilities corporations are struggling to realign their organizations and their human resource policies and practices with new competitive realities. Nothing less than a cultural revolution is underway.

In the United States (US) at least, *the first wave of change focused on cost effectiveness.* In the past decade tens of thousands of jobs have been lost as downsizing has swept the corporate landscape. That wave is now spreading to the rest of the world, where the need to attend more closely to shareholder value is just beginning to make itself felt. Even Japan may not be exempt from these pressures, though clearly change there will occur in ways that are consistent with that country's traditions and norms. Pressures for cost reduction not only demand a different corporate organization, they place pressure on the human resource function to be cost effective. Reengineering of the HR function is occurring in many corporations and with it a search for a new role and organizational form.

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the principal thrust of change, company performance is not enhanced in the long run (Nohria, unpublished).

Chief Executive Officers (CEO) are the second major force for change. As the need for strategic change in organizing and managing people began to be felt, CEOs looked to their HR functions for help and discovered that they were not up to the task. Consider the dilemma faced in 1988 by Ray Gilmartin, the CEO of Becton Dickson, a medical technology company. To support its global strategy the company had introduced a Transnational Organization; its main feature was ten worldwide business teams. The company, however, lacked the culture and managerial skills to implement the structure. Turning to his HR function for help, Gilmartin found that it lacked the capability or credibility to help the company with the needed organizational transformation. This was particularly surprising in light of the fact that the company had brought in a new vice president for human resources several years earlier, and he had built what many considered a state of the art function. A new education and training initiative was launched, a new performance appraisal and compensation system installed, and an innovation cafeteria approach to benefits established. Despite these initiatives and an Award for Professional Excellence from the American Society for Personnel Administration, line executives in the company saw an expensive HR function making a negligible contribution to their business. Gilmartin's responded by asking his vice president of strategy to take responsibility for HR. The merger of HR and the Strategy function led to a new conception of HR as a strategic function; it also led to a core process by which HR would partner with general managers and employees throughout the company in aligning their organization and behavior with strategy and aspirational values, a development to which I will return later in the article.

A third major force for change is the development of new knowledge about the potential for organizations and their people to be a source of competitive advantage. In the last decade several books have been published which establish, more firmly than did previous research, the relationship between organization effectiveness, corporate culture, and financial performance (Collins & Porras, 1994; Deni-son, 1990; Kotter & Heskett, 1992; Pfeffer, 1994). Effectiveness, these studies showed, is much more than the aggregate talent of the firm's employees. It is a function of the coordination around business processes the organization is able to develop (Beer, Eisenstat, & Biggaddike, 1996; Ulrich & Lake, 1990). That coordination is in turn a function of the company's cultural context (Beer & Eisenstat, 1996b).

The fact that many of these books on this new knowledge were written for managers has helped to establish human resources as a key to competitive advantage. The claim that organizational behavior and business success are linked also gained credibility due to CEOs such as Jack Welsch of General Electric and Jan Carlzon of Scandinavian Airlines who received a lot of attention from the business press in the late 80s and early 90s for leading major transformations in their companies' cultural context. Though not understood clearly by many HR professionals, these books also point to a redefinition of HR from a traditional focus on attracting, selecting, and developing talented individuals to a new focus on developing an organizational context which will attract and develop leaders as well as facilitate team work.

Simultaneously, research on corporate change revealed what many employees already knew. Programmatic change driven by the human resource function does not lead to an effective corporate transformation (Beer, Eisenstat, & Spector 1990; Shaffer, 1988). Education programs, changes in compensation systems, culture programs, changes in structure, and total quality programs, for example, do not lead to a transformation in the management of human resources or in the organization's culture. Successful corporate change, according to recent research, occurs unit by unit (Beer, Eisenstat, & Spector (1990). A few organizational units (business units, stores, or manufacturing plants), often at the periphery of the corporation, developed innovative approaches to organizing and managing people—team-based management, high employee involvement and communication, and new approaches to decision making, for example. When top management recognized that these innovations resulted in superior performance and employee relations they en-

couraged innovation in other units. They initiated conferences, visits to innovative units, and the transfer of successful change leaders from innovative units into lagging units. Top management's active development of an ever larger circle of innovative organizational units and leaders was the most important factor differentiating corporations that were successful in transforming their culture from those that were not. Importantly, leaders of innovative units succeeded in changing culture by focusing on the task, not on human resource programs. They involved their top team in defining the competitive threat and agreeing on the strategic task, and then organized people in teams to improve quality, to introduce products more quickly or to develop and implement a world-wide business strategy.

In summary, *new research has established firmly that the organization and management of people can make a difference in the bottom line.* Collins and Porras (1994) demonstrated, for example, that "visionary" companies, such as Hewlett-Packard, returned an average of $6,356.00 in 1992 for $1.00 invested in 1960 as compared to $955.00 for comparison companies in the same industry and $415.00 for the general market. Research on successful and less successful cultural transformations shows that such transformations are far from easy to implement and cannot be achieved with bigger and better human resource programs and functions. No matter how innovative these programs are, they do not make the organization more effective nor do they transform its culture. In the companies that were most successful in transforming their cultures, a change oriented human resource function, in partnership with top management, played an important role (Beer, Eisenstat, & Spector, 1990).

Unfortunately until the mid 1980s the administration of HR programs was the main activity of most human resource professionals and their power came from ensuring compliance. But, given the demands of the competitive environment, the increasing awareness of CEOs that organizational effectiveness is critical to competitiveness, and CEOs' growing realization that their HR function is expensive and ill equipped to help them build a competitive organization, the stage is set for a major transformation of HR.

A Vision of the New Human Resource Function

To make a successful transformation the HR function will have to shed its traditional administrative, compliance, and service role and adopt a new strategic role concerned with developing the organization and the capabilities of its managers. Bill Hewlett, co-founder of Hewlett-Packard, expressed this view some years ago. He said, "the role of Personnel is to enhance the quality of management."

Unfortunately, the track record of companies who have tried to introduce this new role into their HR function has not been good. The rise and fall of organization development departments in the 1960s and 70s, even those whose practice was focused on strategic business issues rather then interpersonal relations, suggest an inherent tension between the outlook required for a strategic human resource role and the outlook of human resource specialists in a traditional HR role. These roles attract and require people with very different professional outlooks, skills, and identity. Moreover, HR executives who have been able to integrate both roles have found that there is simply not enough time to do both. The urgent demand for service delivery drives out the more important, ambiguous, and longer term task of assisting line management with an organizational and cultural transformation. Furthermore, HR professionals who have somehow been able to perform both roles, often find their inclination to perform the traditional role diminishes. In short, the administrative and strategic role do not easily coexist in the same function or the same person.

The older administrative, compliance, and service oriented human resource activities will have to become more differentiated from the new strategic HR activities. This process is already underway. Companies are creating geographically decentralized human resource service centers responsible for providing traditional administrative services. Unlike the strategic human resource professionals, typically called "human resource partners," HR specialists in these centers are not affiliated with a particular business unit, branch, or plant. Enabled by information technology and telephone eight hundred numbers, these cen-

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ters provide services to geographically dispersed sub-units of the corporation. Administrative service centers do not have to reside within the HR function, however; a more radical, and probably superior solution, is to transfer these centers to a corporate service organization which will provide HR services for a fee. Increasingly HR services are being outsourced to external vendors. Moving administrative and service functions out of HR is *essential* if a new strategic role is to emerge.

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Still another way the HR function will transform itself is by eliminating human resource systems and practices long held to be central pillars of effective human resource management. For example, should the practice of requiring all managers in the company to complete annual performance appraisals continue? Evidence has been accumulating for years that performance appraisal systems, no matter how well designed, do not differentiate employees sufficiently to make valid and reliable compensation, promotion, and layoff decisions. They do not necessarily even lead to better coaching. Instead these systems have become bureaucratic nightmares and have put human resource professionals in the role of "cop." At Alcatel Network Systems, in Richardson Texas, for example, the corporate performance appraisal system has been discontinued at the urging of Terry Latham, the senior human resource executive. This move is consistent with evidence that effective individual performance evaluation and development are fostered not by a performance appraisal system, but by a high involvement organization, performance oriented managers, and a culture that tolerates mistakes, encourages letting consistently poor performers go, and recognizes outstanding performers.

Similarly, does it make sense for a company to ask its HR and line management executives to devote considerable valuable time and energy to administering tightly coupled contingent pay for performance compensation systems? Despite the rhetoric, these systems probably do not contribute much to the effectiveness of organizations. Systems that differentiate only at the extremes and payout on a variable ratio schedule for outstanding performances are effective—and far easier and less costly to administer. This article is not the place for an in-depth discussion of this issue; suffice it to say that some of the most successful companies in the world do not have executive bonus or commission systems, for example. They have thick team-based cultures. A recent survey of senior executives from around the world found that they do not perceive that their executive compensation system has much motivational value. Moreover, executives in companies with a thick team-based culture saw more dysfunctional effects from such pay systems (Beer, unpublished). It appears that complex compensation schemes may not only take a lot of time, they also do not motivate and may actually be injurious to building the very team-based culture companies are aspiring to develop. Human resource executives should spend more of their time helping corporations develop these cultures.

The same logic—shed traditional HR practices and focus on aligning the organization and its culture with emerging competitive realities—applies to other areas as well. Human Resource functions spend enormous amounts of time and money in educational programs intended to develop management and leadership skills when the evidence has long been available that these programs do not readily translate into changed behavior on the job (Fleishman, Harris, & Burtt, 1955). Even the most motivated and skillful individuals coming out of these programs are too weak to overcome "the system," bosses, and organizational norms that oppose the new pattern of management. Individual development occurs most powerfully when the person becomes aware of the need to change and develops needed skills while participating in an organizational change process connected to business imperatives (Beer, Eisenstat, & Spector, 1990).

Human Resource executives also spend extensive time as principals in recruitment and selection when these decisions should be made by managers. Once again, focusing on aligning the organization's cultural context with competitive realities will stimulate changes in the lens that managers apply to selection and promotion decisions. As a result of an organizational change process executives either change their perspectives or are themselves changed. The organization is left with many more managers who are competent in identifying people who "fit" the emergent pattern of management.

I have described what should be eliminated from the human resource function, but what will the new HR function look like? It will be much smaller but more high powered; its key role will be strategic. At the business unit level human resource partners will work closely with the general manager and her/his team to assess, diagnose, and develop the alignment of the organization with strategy and aspirational values. This role will demand of the human resource specialist a deep understanding of the business, plus expertise in organization design, organization change, and intervention methods. Analytic and interpersonal skills needed to facilitate change will also be essential.

The corporate human resource staff will be composed of a few key subject matter experts in disciplines such as compensation, management development, diversity, and organization effectiveness. They will support general managers and their human resource partners. A small organizational effectiveness group will take responsibility for developing systems, methods, and skills needed to facilitate organization development at the unit level. One of the most important responsibilities of the corporate human resource staff will be to promote an organizational learning process by facilitating the diffusion of innovations from one part of the company to another (Eisenstat, 1966). Since the principal means of aligning the corporation with its strategy and values is the transfer and promotion of managers, the corporate HR staff will play an important role in promoting an effective succession planning process which supports the company's efforts to align its organization with its strategy and values.

This vision for HR assumes that continuous strategic and cultural change will be required as the pace of change speeds in the twenty-first century. Consistent with the research discussed above, my vision of HR assumes that the process of organization development, while motivated by top management, cannot be led from the corporate level, particularly in multi-business corporations. It must be led by unit managers throughout the company. The CEO's role is to create a corporate context that supports an *action learning* process in each sub-unit *and* to lead a process of strategic change in the top management unit. In the

main, action learning, not educational programs, consultants, or research by academics, will be the principal means by which an organization produces new approaches to organizing and managing that are implementable (Argyris, 1994). Best practices in other companies do not necessarily align with the strategy or culture of one's own company and innovative systems and practices developed by outside experts do not necessarily incorporate important tacit knowledge in the organization. The result is failure in implementation.

How might a corporation institutionalize an action learning process for strategic alignment and what will be the role of the human resource function? Consider, Strategic Human Resource Management Profiling developed at Becton Dickson in response to the concerns of its CEO, Ray Gilmartin, about the capability of the company's HR function described earlier (Beer, Eisenstat, & Biggadike, 1996; Beer & Eisenstat, 1996c). Strategic Human Resource Profiling is a high involvement process by which a general manager and his immediate reports can inquire into the alignment of their organization with its strategy and values in partnership with employees at lower levels. It is facilitated by a "profiler" from human resources or the strategic planning department. The process begins with the leadership team defining its strategic task and its values. An employee task force of eight high potential employees, one or two levels below the top team, is appointed to interview 100 employees and customers about what barriers to strategy implementation they perceive and about the extent to which management's behavior is aligned with its stated values. Data collected by the task force is fed back to top management and processed in a three day profiling meeting. The first day of the meeting is devoted to feedback with the task force using a fishbowl method to facilitate open communication. The second day is devoted to rigorous diagnosis using a diagnostic model. The third day is devoted to developing a vision as to how the organization and its management processes must be redesigned and to the creation of a number of design teams which will be engaged in the actual redesign activity. To create accountability it is intended that the general manager will report task force findings and action plans to the next

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level after reviewing them with the employee task force.

An analysis of issues identified by Strategic Human Resource Management Profiling in several corporations revealed six core barriers to strategy implementation and reformulation: (1) poor coordination and teamwork, (2) unclear strategy and priorities, (3) an ineffective top team, (4) top-down or laissez faire management, (5) poor vertical communication (particularly upward communication), and (6) inadequate management and management development throughout the organization (Beer & Eisenstat, 1996b). These findings suggest that strategic HRM involves fundamental management issues. These issues must be a major part of the change process if changes in structure, systems, and HRM policies are to create fundamental change. Evaluation of Strategic Human Resource Management Profiling reveals that the process helps HR professionals play an important role in stimulating important change in systems, structure, and behavior though the extent of the changes is dependent on the leader (Beer and Eisenstat, 1996b). Strategic HRM Profiling does also provide managers with the opportunity to develop as leaders.

For an HR function to develop a strategic role it will have to develop and institutionalize a core action learning process such as the Strategic Human Management Process described above. Without such a process, the HR partner will have difficulty developing commitment to behavior change. S/he will be put in a position of having to personally provide feedback that is potentially threatening and embarrassing. First of all HR executives find this difficult, given organizational politics. Second, even if they find it possible to provide honest feedback, management can deny its validity. It is possible that the HR professional's fear of providing honest feedback and/or management's desire to avoid it is responsible for many less threatening but less effective human resource programs.

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Obstacles to the Transformation of the Human Resource Function

The transformation of the human resource function faces many obstacles. These obstacles are related and mutually reinforcing making them hard to overcome.

Perhaps the most formidable of the obstacles, is the capability of most human resource professionals. To play a strategic role they will have to have analytic and interpersonal skills equal to the best consultants corporations now use to assist them with organization effectiveness and change issues. Many HR professionals lack these professionals skills. In most companies, the traditional HR role and the rewards that typically go with that role make it hard to attract professionals with required talent. One alternative is to transfer into the HR function line executives who have shown success in leading organizational change; they already possess business knowledge and have demonstrated skills in managing organizational change. If augmented with professionals in organization effectiveness and change within the function they can enhance HR's credibility. Yet another alternative is to train HR professionals in the skills for organizational analysis, design, and change they will need. In one company, studied by Beer, Eisenstat, and Spector (1990), the corporate organization development group constructed a training program for HR professionals throughout the company in which cases, lectures, and actual intervention projects were used to enhance those skills.

Guided processes, such as Strategic Human Resource Management Profiling, operationalize the organizational alignment and cultural transformation process thereby providing a consistent approach for strategic human resource management within a company. Consistency will increase the quality of professional HR work and will lead to institutionalization. Consistency in approach also enables higher management to hold line management accountable for developing an effective organization without having to rely on HR executives to provide information that may be seen by general managers as potentially threatening to their careers.

A second major obstacle to the transformation of the HR function is top management itself. CEOs say they want a more strategic HR function, but often do not understand what this entails. Many still judge the function by its effectiveness in delivering administrative services and keeping the company out of trouble

with regulatory agencies. They are, therefore, unreceptive to radical ideas such as splitting off administrative and service functions and placing them within other administratively oriented corporate departments. CEOs further frustrate a transformation in the human resource function when they expect HR executives to be their agents. This is often accompanied by an ambivalence about giving the HR function the freedom and power to confront deep cultural issues, particularly when these issues are connected to top management's own assumptions, values, and behavior. Yet, as the research cited above has demonstrated, these issues are precisely the ones that must be confronted for a transformation in human resource management to take place. Once again, a well established action learning process such as Strategic Human Resource Management Profiling developed at Becton Dickinson may help overcome this problem (Beer, Eisenstat, & Biggadike, 1996). Along with consolidating HR and the Strategic Management Department under the Vice President of Strategy, it was Ray Gilmartin's principle means for transforming the concept of human resource management. It enabled a far deeper and more comprehensive analysis of organizational and human resource issues and their link to strategy at the corporate and division level. It also shifted the definition of HR in the eyes of many. Illustrative of this shift is the response of a manager at Becton Dickinson to a case dis-

cussion intended to show managers how Strategic Human Resource Management Profiling would help managers analyze their organization and transform them. "I thought this session was supposed to be about human resource management. What we are talking about here is management," said a puzzled participant. The Profiling process also stimulated a collaboration between HR and the Strategy Department. It involved HR professionals in strategy, organizational analysis, and organization redesign thereby changing their role and creating an opportunity for the learning of new skills. It taught members of the Strategic Management Department that the implementation of strategy depended heavily on human and cultural dimensions of the organization.

Overcoming these obstacles to the transformation of the human resource function will not be easy. To do so HR professionals will have to shed their ambivalence about the new role. They will have to be comfortable with the uncertainty and ambiguity associated with all change. Nothing short of a bold approach will suffice. Nor will these efforts succeed unless HR executives take the initiative. They must impart to top managers a new vision of HR and propose frame breaking changes in its organization. Top managers do not yet understand the activist change agent role the HR function can and must play if they are to transform human resources in their company into a source of sustainable competitive advantage.

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