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Strategic Role of HR

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Strategic Role of HR

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What are the features of an HR organization that are associated with HR's strategic role? It is a timely question. Talent and HR management are becoming more and more important determinants of organizational effectiveness.

A great deal of debate was generated by [Ram Charan's recent proposal](#) in a Harvard Business Review article that corporate HR functions be split. He called for eliminating the CHRO role and creating two functions. One function would be an administrative function that manages compensation and benefits and reports to the Chief Financial Officer. The other would be a "leadership and organization" function that is staffed by high potentials from operations and finance who rotate through the role on their way to the top two layers of the organization.

Few HR executives and researchers believe that this is the best way to improve the strategic role of talent and HR management in large corporations. Still it is significant that such a proposal would be made by such a highly respected individual in a widely read general management publication. [As Boudreau has noted](#), the attention it has received highlights the importance of organization leaders becoming more sophisticated about HR management and organization design, in order to avoid the temptation to adopt such simplistic and potentially harmful solutions as the one proposed by Charan.

What is the relationship between the design and management of the HR function and HR's role in organizational strategy? This is the key design question and one

that can be answered by examining the research evidence from our [international survey of hundreds of HR leaders](#) that has been done every three years since 1995.

Survey data were collected in 2013 from HR executives in companies with 1,000 or more employees. One executive per company responded, usually the CHRO or a direct report to the CHRO. Responses were received from 416 companies in Australia, Canada, China, Europe, India, U.K., and U.S. The median company in the U.S. sample had 14,000 employees, while the median company in the international sample had 4,200 employees. The revenue of the U.S. firms was also greater 5.0 billion (median) versus 2.0 billion (median) for the international sample.

We measured HR's role in strategy by asking the survey respondents to rate HR roles in their company by choosing one of the following: 1=Human Resources plays no role in strategy (4%); 2=Human Resources is involved in implementing the business strategy (22%); 3=Human Resources provides input to the business strategy and helps implement it once it is developed (54%); 4=Human Resources is a full partner in developing and implementing the strategy (21%). The responses indicate that HR is not a full partner in most companies.

The survey also asked about seven features of HR's operating model. For each one, the survey respondents were asked to rate how true it is of their organization on this scale: 1=Little or No Extent; 2=Some Extent; 3=Moderate Extent; 4=Great Extent; 5=Very Great Extent. In the table below, the average rating of each question among the U.S. leaders is shown both for the 2013 survey

and a survey of similar HR leaders in 1995. Also shown for 2013 is the percent who answered to a great or very great extent.

The right-hand column shows the correlation between the question about HR role in strategy and each rating of HR operating characteristics.

Survey Question	1995 Mean	2013		Correlation with HR Role in Strategy
		% of Great or Very Great	2013 Mean	
Centers of excellence provide specialized expertise.	2.5	56.7	3.5	.30***
Administrative processing is centralized in shared services units.	3.5	54.6	3.4	.18*
Decentralized HR generalists support business units.	3.6	65.5	3.6	.11
HR practices vary across business units.	2.9	18.2	2.4	-.25**
People rotate <i>within</i> HR	2.6	26.8	2.7	.39***
People rotate <i>into</i> HR	1.8	1.4	1.7	.24**
People rotate <i>out of</i> HR to other functions	1.8	0.7	1.6	.28***

Looking at the average ratings, we see that the operating models of HR have not changed very much in the last two decades. The 2013 ratings are virtually identical to the ratings we obtained in our survey of HR leaders in 1995, with two exceptions: There has been a significant increase in the extent to which HR Centers of Excellence provide specialized expertise and a significant decrease in the extent to which HR practices vary across business units.

It is also interesting that while the highest-rated operating model feature is decentralized HR generalists supporting business units, one of the lower-rated items is HR practices varying across business units. Indeed variation has significantly decreased. Thus, it appears that the dedicated business partners are supporting the businesses in ways that do not include tailoring HR practices, but rather working with Centers of Expertise and HR administrative service units to deliver an array of similar services to the businesses.

The use of common practices most likely reflects efforts to simplify and to achieve scale leverage in some HR activities, and perhaps the tendency of companies to be in fewer unrelated businesses. There are economies of scale to be gained when corporations use the same HR practices in all their units. This is particularly true in the case of transactions and the creation of IT-based self-service HR activities. However, when it comes to talent management, different business strategies may call for different practices.

The bottom three rows of the table reflect the talent development elements of the HR functions operating model and they assess the extent to which individuals rotate *within*, *out* of and *into* the HR function. They are three of the lowest-rated operating elements of HR, and have been since 1995. Rotation within HR is rated below the scale midpoint, but even more striking is that rotation *into* and *out* of HR are particularly rare with less than two percent of the companies reporting great use.

Looking at the correlations with HR's role in strategy, it appears that most HR functions are doing some of the things that lead to their having a strategic role while failing to do others.

In the fourth row of the table, the correlation is negative indicating that greater variation in HR practices across units is negatively associated with HR's role in strategy, and the averages for this item show that there has been a decrease in HR practice variation, perhaps reflecting this negative association. The top row is another example of the usage trend being consistent with the correlation. Centers of Excellence are positively associated with HR's role in strategy, and the use of this HR operating characteristic significantly increased from 1995 to 2013.

Overall, there are untapped opportunities regarding rotational assignments. For all three items, the correlation with HR's role in strategy is significantly positive, and this has been true in every survey we have conducted since 1995. Yet, the extent to which HR organizations use all three elements is consistently and stubbornly low. The correlations cannot prove that greater rotation causes a stronger strategic role or vice versa. Still, it is likely that the strength of HR's strategic role is enhanced by efforts to create career movement within the HR organization, and even more significantly *across* the boundary between the HR organization.

Efforts to create movement across the HR boundary can lead to extreme approaches such as eliminating the role of the CHRO and making it a rotational position for other disciplines. Such extremes are likely to be dysfunctional in many organizations because they risk removing vital HR functional expertise from the top positions. That said, more nuanced approaches do seem warranted. Having HR leaders gain first-hand experience as business leaders throughout their careers seems likely to prepare them more fully for true business partnership than does having only HR jobs.

Perhaps even more important is having leaders outside of HR rotate into the function, which is also associated with a stronger HR strategic role. Such rotations enhance the business awareness of the HR function because the inward rotations bring valuable expertise from outside. This may facilitate [“retooling” HR](#) by recasting HR decisions and processes into the logic of frameworks from finance, operations, marketing and strategy, making them more accessible and better understood by leaders in these disciplines.

Rotation of non-HR leaders into and out of the HR function can enhance the HR sophistication of those non-HR leaders as they return to their original or previous business roles. Dedicated HR business partners need to remain a common element of HR operating models, but their role is not so much to tailor HR activities to the business, as it is to deliver a common set of activities and expertise. Having non-HR leaders with first-hand experience in the HR function can help those non-HR leaders become more aware of the value and nature of the services and HR expertise. This can make them better partners and consumers of that expertise when they return to their business roles.

We believe there can be a bright future for the HR function if it is designed and managed strategically. Our research shows that most organizations are doing many of the things they need to do in order to be strategic contributors, but are failing to do some important ones. HR operating models that create a more permeable boundary around the HR function seem to be a particularly powerful way to enhance the strategic role and contribution of HR going forward.

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