

# Beyond The Human Resource Function: What Lies Ahead?

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## **Introduction**

An increasingly common theme in Human Resource (HR) literature in the 1990's concerns how the HR Department can make a greater contribution to the success of the business it serves. To do so, we must first change our view of the Human Resource role as being only executable within a traditional "Department." We must view HR more as a "function," or "a set of activities," than as a department. While HR services may not be delivered in the future via what we know as a Department, they must be delivered in some way. This article is about the realm of possibilities.

## **The HR Function Today**

Today the HR Department is in a transitional phase. Some organizations have long ago realized that the HR Department can make a greater difference. Others need convincing. A positive trend seems to be developing, as evidenced in publications of the Human Resource professional's accrediting organization, the Society for Human Resource Management, (e.g. see HR Magazine, 11/98). Chief Executive Officers are increasingly viewing the HR function as an actual or potential "strategic business partner." This is encouraging, for as recently as the early 1990's the notion of the HR function as a strategic partner would have been quite novel.

To understand where the HR function is going, it is helpful to briefly review its past.

## **Where HR Came From**

In the first half of the 20th century, the Human Resource function grew out of the Payroll function. The remnants of this can be seen in companies that retain the responsibility for payroll processing within the HR Department. Today, the payroll function can often be found in the Controller's functional area.

This new entity then became known as the "Personnel Department." It was responsible for those duties that, quite frankly, didn't seem to fit anywhere else, such as overseeing the employment process. Unlike later iterations, the Personnel Department was not concerned with strategic recruiting and selection. Its goal was simply to hire people to fill "jobs," a 20th century creation. This emphasis explains how, even today, many people think of the Personnel Department as simply "the Department that hires people." So engrained is this idea that, even in surveys of HR practitioners that we conduct today, many of them still define the main purpose of the HR Department as being "the employment of people." Of course, it is true

that in many of their companies, hiring people still is their main focus and purpose.

Since its inception, the HR Department has gone through a number of transformations, as depicted in Figure 1. During the 1970's and 1980's as it sought a new identity. These changes attempted to reposition the function as the guardian of employee relations and a provider of services.

The Evolution of the Human Resource Department:

*Payroll*  
*Payroll/Personnel Department*  
*Personnel Department*  
*Employee Services Department*  
*Human Relations Department*  
*Employee and/or Labor Relations Department*  
*Personnel Relations Department*  
*Human Resource Department*  
*Human Assets Department*  
*Human Capital Department*  
*Human Systems Department*

In terms of the evolution of Management, this change had its origins in the “Human Relations” and “Human Resource” Movements of prior decades. The core notion of these movements was that organizations should proactively establish closer links with its employees to create the perception of, if not an actual concern for, employees, because of the employees’ potential to disrupt organizations when “relations” became unstable.

This era was also the beginning of the “employee involvement” movement and strategy. Employees became more increasingly engaged in decisionmaking that affected them. Progressive companies increasingly realized that employees who did the work, knew the work best. To gain greater acceptance of change, it was best to involve employees whose lives would be affected by the change. Human Resource professionals became “Employee Relations Counselors” and had the responsibility of bridging, establishing and maintaining a stable relationship between the employer and its employees.

Eventually, the notions of the HR function as the Personnel Department and the Employee Relations Department gave way to a new notion: the idea of employees as organizational “resources” to be valued. Thus was born the “Human Resource Department.”

Structurally, the Department did not change very much. The various sub-functions of Employment, Compensation, Training, and others remained. But the connotation of employees as “resources” permitted the HR Department to be viewed as something more than just a hiring function or as a mere provider of counseling and other services to employees. It suggested that the HR function recognized that humans as resources could be valued, served, recognized and “invested in,” in ways which could increase their value to the company.

It was the start of what would later emerge as “Human Capital” theory. This theory holds that, through training and education, an investment in people will provide a “return” to the company in the form of greater innovation and/or productivity. We see this final transition represented in Figure 1 by several newly conceptualized titles, including “Human Systems” and “Human Assets” Departments. Human Systems, for example, refers to the potential involvement of the HR practitioner in any human system within the company, be it a pay system, a sociotechnical system, a team-based systems or others requiring the internal consultation of the HR professional. Their contribution is tied more closely to the strategic nature of the business and the impact can therefore be even greater than that which was possible within the traditional HR Department.

### **Where HR Came From**

Where is the HR function today? In an increasing number of companies, HR services are being delivered in new ways. In others, the HR Department resembles the same function and structure used in the 1960’s.

Fortunately, we are seeing long overdue change. The change is prompted by how organizations of the 1990’s need to be or demand to be serviced. For some, this means being a full-fledged strategic partner in the business. For others, it simply means being utilized as something more than a mere hiring or administrative function.

Change is also affecting the name of the emerging HR function. As depicted in Figure 1, the HR function in some companies is becoming the “Human Capital,” “Human Systems” or “Human Asset” Department. These names suggest the need to invest in human capital or human assets, as well as to evaluate how people are integrated in various organizational systems. Being new, these names may be better thought of as part of HR’s future.

### **The Effect of Cross-Functionalization**

Specifically, how are HR services being delivered today? Certainly, functional structures are still in use, with their traditionally separate specialty areas such as

Employment, Compensation, Training, and others. However, as “team-based,” “lateral,” “cross-functional,” or “matrix” organizations (choose a name) proliferate, the HR function has adapted. It is increasingly common to see a cross-functional HR representative assigned to other functional areas to provide general, ongoing HR services to that area, team, or group.

A more radical approach for the delivery of HR services is one in which it is understood that the HR representative is more strongly aligned with the assigned functional area than to the traditional HR Department. The difference is one of emphasis. While this is happening now, this structure could be considered more of a model for the future.

Unfortunately, this structure sometimes creates a split allegiance for the HR professional. Internal conflict increases under this model both within and across the HR functional representatives because the HR representative can become more emotionally tied to the assigned function than to the central HR function.

### **The Trend Toward Generalists**

The trend toward the use of more HR generalists and fewer specialists also continues. This is an outgrowth of downsized organizations and the “do more with less” philosophy of the 1990’s. Thus, the makeup of HR Departments reflects this demand, increasing the use of generalists who can “do it all.” Some companies complement this approach with specialists, such as Compensation Specialists, for example, who are called upon as needed to serve the entire company in an internal consulting capacity. Company size also impacts the ratio of generalists to specialists. The larger the company, the more likely it is that it will create specialist positions.

### **Shared Services Model**

Another current model gaining increased attention is the delivery of HR services via a “shared services” model. This is a centralized model in which HR specialists and generalists deliver services to the entire company on an as-needed basis, charged to the functional area served.

The central HR function also can perform normal or expected services such as administrative services (somebody has to do it!) on behalf of the company. These may be free to specific functions or the costs may be distributed over all functions.

The shared services model creates a more positive image for the HR Department as an internal consulting function rather than an administrative function, or in the other, less attractive ways the function has been traditionally viewed. A disadvantage of this approach can be the reluctance of other functions to utilize

services for which they will be charged. An HR function operating in this environment would be wise to internally market its services to, or “partner” with, other functions.

### **Where Is HR Going?**

The future will be an interesting time for the Human Resource function. As one HR consultant observed (ACA Journal, Spring 1997), a review of the debates in the national business media might lead one to conclude that the future HR Department will be “a fraction of its size, with the remaining activities pushed up (to the CEO), down (to line management), out (to vendors and consultants) and in (to technology).”

Will it continue to exist, but as a smaller entity? Will it become functionally stronger, gaining greater acceptance, meaning and value in organizations where it serves? Or will its duties remain but be delivered in other forms?

### **Here are some of the more radical possibilities:**

#### **The Devolution of the HR Department**

One scenario has the HR function being “devoluted” (i.e. de-evolved), with its tasks being redistributed or incorporated into other functional areas. Thus, managers in what once were the “customer” areas served by HR take on HR functions such as employment, compensation, counseling, and many more.

This envisioned future is disconcerting to HR professionals. A common reaction is that the supervisors and managers of other functional areas do not possess the HR professional’s knowledge, gained over a long period of time about matters such as discrimination law, dispute resolution, pay strategy, administrative requirements, designing and presenting training programs, and many other responsibilities resident within HR Departments. A major concern is that this lack of knowledge on the part of the receiving function about compliance law will result in financial damage to the company, in the form of fines and penalties.

In fact, the belief that the HR function can be devoluted can be a serious misconception. From the general HR literature, it appears that non-HR professionals, including Executives, sometimes minimize the value of the HR function. Consequently, they conclude that absorbing its responsibilities will be relatively easy. This is a very dangerous assumption. One reason why an absorption of duties does not work is the time demands placed upon the absorbing functions and individuals. Whether the HR role is one capable of absorption or not, time constraints prohibit its successful and timely execution.

Thus, the thinking about the HR function's role and importance comes full circle. It is a unique function with unique preparatory requirements. In another irony of perspective concerning the absorption of the HR function, it is interesting to observe how commonly companies assign the HR function to the Financial function, but never the converse! In fact, both functions should be viewed as different, unique and, above all, separate.

### **Human Systems Management**

Another scenario for the HR function's future is a movement toward "Human Systems Management." As briefly defined earlier, this is the management of human systems, or any organizational system in which the role, impact and reaction of the human element is of primary importance.

Human Systems Management encompasses much of what Human Resource Management has become, and more. In it, the HR function is re-creating, redefining, and essentially retuning for the Post-Modern and Information Ages. The system may be exclusively human (e.g. the process of team building) or sociotechnical (i.e. the interaction of people and technology). It may involve the redesign of work or the design of new pay systems to improve employee satisfaction and organizational performance. The key element is the human element. The desired outcome is twofold: improved individual and organizational performance.

In this HR future, we move away from the view of HR as a functional area and redefine it in terms of its internal consulting capabilities. Yet it still permits the HR function to fulfill a role we have come to expect, namely, to provide services which do not fit neatly into the roles of other functions. It is that "crossover" activity, in which the business' operations must be understood and combined with the special expertise that HR professionals possess, including knowledge of organizational behavior, organizational theory, organizational development, and human resource management. Human Systems Management thinking recognizes that the HR professional has a unique view of the organization, and serves to capitalize upon it.

### **Shared Services Model**

The Shared Services Model has become an increasingly popular model of HR Department design, and, as previously described, could be considered as a current design. What makes it more of a future model at this time, however, is its relative lack of implementation. Practitioners are still working out the organizational issues it creates, and discovering its usefulness.

In this model the HR Department acts as a kind of "central consulting

organization” and, sometimes, even becomes a “profit center,” charging its services to other departments as its services are retained by them. While the traditional HR Department can provide consulting services out of its historically common structure, the consulting relationship is more formal in the shared services model. It is not the “old” HR Department redefining itself as internal consultants. Rather, it is a formal re-introduction of HR into the company as a functional area with a newly defined mission. This mission is to provide HR consulting services as requested for a fee.

While it may not actually be profitable as a profit center, it is an intriguing way to assess the organization’s need for HR services. If one believes that the HR function can act like a strategic partner, how often are we afforded the opportunity to prove it? Do others see HR as being a mutually useful and beneficial partner in order to achieve their business objectives? Being organized in a Shared Services Model will give you the answer quickly.

### **Outsourcing**

An increasingly popular model today is outsourcing, which permits the HR function to rid itself of activities that can often be performed by others more effectively or economically. In other cases, outsourcing simply permits the HR function to turn its attention to other, more important matters.

It would be easy to view the use of outsourcing as a current phenomenon, not as something that will occur in the future. However, a growing change in the outsourcing strategies of companies is to move beyond the simple outsourcing of administrative tasks and into the realm of professional services like compensation program management and maintenance activities. For example, third parties may be used to maintain a company’s job descriptions. This is important and useful because this activity is normally a time-consuming responsibility that is often avoided internally. Third parties/consultants also can design and implement training and development programs, as well as conduct audits (e.g. pay program audits, retention audits, skill audits, etc.).

We have always outsourced a number of HR activities. These include contingent/retained recruiters, benefits administration, and training and development programs to some extent. What has changed? Specifically, it is the expansion of the activities that we are willing to outsource, spurred by the new rationale for outsourcing more HR activities: namely, that we are recognizing that the HR role can be performed much more effectively in other ways. We are moving away from the “administrative, service and control” HR model and toward the “strategic partner” HR model, and extensions of it. When we can lighten the load of HR functions in order to address more meaningful challenges, we are increasing our worth and

value to our organizations. Outsourcing helps us to achieve this.

### **Environmental Scanning**

This is, perhaps, the most unusual possible course of action for HR Department design in the future. Scanning refers to the monitoring of activities in the company's external environment. Scanning activities have been part of the HR Department's role for quite some time. For example, Compensation Departments are responsible for conducting pay surveys to gather external marketplace data. The HR Department also scans governmental activity to monitor changes in laws which affect the management of people. Employment Managers monitor demographic changes in the workforce to establish recruitment strategies.

The suggestion, therefore, is that the HR Department become the entity which is responsible for those and other scanning activities, some of which may now be performed by other functional areas, such as Marketing which is responsible for market research, or for outsourcing tasks (once again, to the "outside" of the company).

The possibilities are endless but require very different thinking about the tasks of different departments and a willingness to centralize them under the new entity. Like any other cross-functional redesign effort, a "natural work group" of tasks (i.e. a combined task group that makes sense) would need to be assembled to make this vision a reality. Not all external scanning possibilities would make sense for grouping in a department that, in the end, may have a name other than the Human Resource Department. It could be called the "Environmental Monitoring" Department, as one of many possibilities. Whatever its name, the core concept is that what happens on the outside of our companies is important and worth researching, or simply, good "strategic management."

### **Conclusion**

Ask someone to quickly define the purpose of an HR Department and you'll receive some interesting answers, from both practitioners and non-practitioners alike. The diversity of their answers reflects the uniqueness of the HR function.

We seemingly can't live with the HR function, nor without it. It is becoming something more than it has been historically, and yet it faces the prospect of further evolutionary change. Different methods of service delivery will be seen in different companies. The demand for services will differ depending upon the company and its view of the role and purpose of the HR function.

I believe it is safe to say that the HR function can be "something more" than it has been in many companies. In some, HR has already demonstrated how valuable its



contribution can be. In others, it continues to provide only administrative support. Perhaps the solution rests in what the contract will be between the HR function and the organization it serves. What does the organization want HR to be?

We see the potential emergence of the HR function as a “hybrid” structure, consisting of the valuable parts of its past, but combined with new services and approaches aimed at supporting the new business entities and thinking that have emerged in the last fifteen years. For example, the training and development of human assets has now become just as important to the managers of Manufacturing, Engineering, and other functional areas, as it has always been to the HR professional. This convergence of thought provides new opportunities to the HR professional to serve in ways which are increasingly valuable and meaningful to supported functions.

With these changes come new opportunities for HR professionals to influence and impact not only the design and delivery of HR services, but to shape the image of the HR profession in the new millenium. As HR professionals, we should be excited about the possibilities that lie ahead.