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Strategic HR: Outsource Yourself?

Abstract
[Excerpt] Human Resources has undergone a major transformation over the past three decades. Instead of solely pursuing a functional approach of delivering services, HR professionals now seek to develop and support the critical firm capabilities that drive business strategy. This shift indicates an important change in the way HR contributes to the achievement of an organization's objectives. And yet responsibility for the older, functional aspects of HR still resides within the field, intertwining two components with considerable differences.

Keywords
strategy, outsourcing, function

Comments

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CORNELL HR REVIEW

STRATEGIC HR: OUTSOURCE YOURSELF?

Evan M. Fowler-Guzzardo

Human Resources has undergone a major transformation over the past three decades.[1] Instead of solely pursuing a functional approach of delivering services, HR professionals now seek to develop and support the critical firm capabilities that drive business strategy.[2] This shift indicates an important change in the way HR contributes to the achievement of an organization's objectives. And yet responsibility for the older, functional aspects of HR still resides within the field, intertwining two components with considerable differences. While the functional component focuses on providing services of a set quality and scope at the lowest cost, the strategic component seeks to provide unique organizational consultative services that differentiate the firm from its competitors in the marketplace.

This essay explores both of these components of the modern HR department, the functional and the strategic, and argues for their place along the spectrum of business essentiality. Finally, it argues HR's sustainable value proposition resides with the consultative capability contained within the latter of these two disparate pieces.

The addition of HR's strategic component changed the way practitioners think about the field in a way not unlike how Hertzberg's two-factor theory changed the way researchers and managers think about motivation. While some criticisms question the validity of his findings, the framework described in his theory is relevant when considering the two components of HR.[3] Herzberg, who postulated, "The factors that lead to job satisfaction are separate and distinct from those that lead to job dissatisfaction," described how workplace hygiene factors such as work conditions and supervision led to either dissatisfaction or no dissatisfaction, while workplace motivation factors such as personal growth and recognition led to either no satisfaction or satisfaction.[4] Aside from the question of employee motivation, the basic elements of Hertzberg's model highlight an interesting truth about HRM: just as hygiene and motivation factors have effects that are distinct from one another, so too do the functional and strategic components of HR make very different contributions to an organization. Here, a successful functional component is a basic qualification, or the hygiene factor, for any contemporary HR department.[5] And yet it is the strategic component that shapes the organizational strategy as these separate but intertwined aspects contribute to firm performance in very different ways. Boselie and Paauwe supported this stance as follows:

> "In a range of case studies, carried out among Dutch-based multinational companies we established that HR managers and their departments are allowed to fulfill more strategic and change oriented roles. However, they only got the credits to do so, provided that the basic HR processes (e.g. staffing, rewarding,

> appraisal) were taken care of in a cost-effective way and carried out at a high quality level. These basic activities were highly appreciated by regular line management and generated credits for being "at the table" and being allowed to interfere on more strategic and organisational change issues."[6]

Thus, the functional and strategic components intertwine in modern HR departments because the leeway to develop the strategic component is often contingent upon the successful operation of the functional component, which grants the department legitimacy.

Though intertwined in most organizations, this need not be the case. Why, in an era of sophisticated HR outsourcing initiatives and high vendor standards is the legitimacy of the strategic component of an HR department contingent upon the success of the functional HR services component? The truth is both of these components contribute to completely different organizational objectives. The success of one is not indicative of the success of the other. Assuming so is akin to stating that the well-run box office at a ballpark indicates the proper conditioning of the ball team. Perhaps there is a correlation, but no one drafts the box office representative to play in the game. While functional HR services *are* essential to the organization because they are needed for the organization to function, they are *not* critical in the sense that they do not contribute to the sustainable competitive advantage of the organization. Thus, it is not necessary for them to be performed in-house and an organization should not pay a premium for these services. If a company can find these services at a better cost, quality, and/or efficiency by outsourcing them to an external vendor, the firm should do so as it may gain a short term cost advantage over its competitors.

In contrast, the strategic component of an HR department is essential for different reasons. Unlike the functional component, it appears at first glance that the strategic component is not required for the everyday operation of the organization. Some companies have no strategic HR capability at all and countless others call themselves strategic while, in reality, they fall short of this distinction—likely because they drafted their box office representatives. Yet, according to Boselie and Paauwe, "High-performing companies have HR professionals involved in the business at a strategic level. These HR professionals manage culture, facilitate fast change, are involved in the strategic decision making and create market-driven connectivity."[7] This consultative role is essential because the HR input most significantly correlated with organizational performance, as calculated by perceived financial competitiveness, is in fact the department's "strategic contribution."[8] Omitting this from the function weakens the organization by preventing it from developing a sustainable competitive advantage unique to the human resources of the firm.

Conceptually, "sustainable competitive advantage is the prolonged benefit of implementing some unique value-creating strategy not simultaneously being implemented by any current or potential competitors along with the [competitor's] inability to duplicate the benefits of this strategy."[9] A successful strategic HR function makes this possible by repeatedly developing and positioning the human resources and capabilities of the firm in a way that allows the organization to respond to the pressures

of the external environment better than its competitors. What could be more important? And yet this is by far the most difficult capability to develop within HR, or any other department, and is one of many capabilities missing from the functional component of HR.

When considering where HR's own sustainable value proposition lies, it is certainly not in the functional component. If this were all that the field had to offer, the study of HR would have long ago disappeared. However, the study of the field and its strategic impact only continues to intensify, driven by the realization that its value proposition lies in the ability of a strategic Human Resources function to contribute to the shaping of, if not generate on its own, sustainable competitive advantage for the company. Nothing is more essential.

In conclusion, though "recent economic hardships have prompted many companies to decrease employee headcounts in 'less essential' business functions, including HR in some instances," there may or may not be cause for concern.[10] If these companies reduced their headcounts in the functional component of HR and can outsource these positions or simply "do more with less" to achieve greater cost savings at equal or better quality, these organizations made the correct decision. In fact, this may be an excellent time to reduce headcount in these areas:

> "The challenge for the future appears to lie in sustaining a balance between strategic and technical roles, and shifting from being a provider to being an enabler in HRM, particularly in facilitating organizational change. This will most likely involve the use of core HR staff, while outsourcing appropriate activities and concurrently devolving responsibilities to the line and to employees."[11]

However, if these reductions came from the strategic component of these organizations' HR departments, they came at the expense of their future agility via a unique, sustained competitive advantage in Human Resources. While this certainly does not mean every firm should abruptly outsource the functional component of HR, it does mean each should seek to develop their HR department's strategic capabilities. Doing so will result in an HR function that earns respect based not on the contributions of its legacy functional component, but on its ability to influence the sustained competitive advantage of the organization. This is strategic HR. א

Evan M. Fowler-Guzzardo is a student at Cornell University, pursuing an MILR at the School of Industrial & Labor Relations. This essay won the third-place prize in the Cornell HR Review 2010 Essay Competition.

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