

## Article

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# Is HR at Its Breaking Point?

Some companies are choosing to do away with traditional HR departments and divvy up the duties to other departments, but not everyone agrees that's such a good idea.

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## Learning Outcomes

*After reading this article, you will be able to:*

- Recognize that HR functions may not be addressing important organizational requirements.
- Understand how Ulrich's business partner model of HR might be a preferred alternative to traditional HRM structure.
- Consider the possibility that HR as a function may need to evolve over time.

Three years ago, Toronto-based G Adventures held a funeral for its human resources department.

"We had a company function where I put up crossbones and skull with the title 'Death of HR,'" says Bruce Poon Tip, founder of the adventure-travel company, which employs 1,500 people.

Poon Tip took the drastic action after spending a year looking for a veteran of the field to become vice president of human resources, which would have been a new position overseeing the five-person department. He received 600 resumes and spent months interviewing candidates.

"Every meeting I had, I couldn't wait for it to end," he says. "It seemed like HR was the art of oppression. I knew I didn't want that in my company."

The debate over HR's shifting function and format continues, but it is apparent that as executives shift their corporate priorities, HR is following suit. Some companies have chosen to outsource their HR functions; others have shifted responsibilities to front-line managers in efforts to transform HR leaders into business leaders; and some, like G Adventures, have no HR department whatsoever.

Poon Tip moved administrative tasks into the finance department and created two new departments. The so-called "talent agency" focuses on recruiting and talent management. The "culture club," where everyone has the title "karma chameleon"—named after the hit 1980s song sung by Boy

George—organizes everything from fundraisers for the company's nonprofit foundation to holding celebrations whenever G Adventures wins an award.

Poon Tip's approach wouldn't work for many organizations, but a growing number of companies are reimagining their HR structures along with who executes their people strategies. Almost 45 percent of organizations indicated that they will change their HR structure by the end of 2013, according to Towers Watson & Co.'s 2012 HR Service Delivery Survey, up from 28 percent in the previous year's survey.

Jac Fitz-enz, founder of the consulting firm Human Capital Source, says it's time for the C-suite to forget tradition. Organizations should pull apart HR departments and place pieces where they fit naturally. "We have patched together a function that isn't working very well," Fitz-enz says.

If it's the sunset of HR as we know it, the new era's dawn can't come soon enough for Robert Bolton, a partner in KPMG's HR Transformation Center of Excellence. The field has "relentlessly pursued best practices and generic models" with a blind eye to business strategies or even industries. "If people are significant for your organization in relation to achieving a competitive advantage, and if you are trying to steal a march on your competition, then that calls for a differentiated HR function, not one that looks like everybody else's," Bolton says. This never-ending chase of best practices and copycat models has put HR in a "doom cycle," he says. "To my mind," he says, "HR has got to break out of that or die."

Deerfield, Illinois-based Beam Inc. might be a bellwether of how larger organizations can branch out. The maker of Pinnacle vodka and Maker's Mark bourbon is midway through reinventing its approach to HR and talent management, a process that began 18 months ago.

In October 2011, Beam became a stand-alone spirits company after Fortune Brands Inc. split up its three enterprises. Fortune Brands sold its golf business, best known for its Titleist golf balls. It then spun off Fortune Brands Home & Security, whose brands include Moen faucets. The remaining business, which includes the Jim Beam whiskey brand, became Beam Inc. It has 3,400 employees.

At the new Beam, executives wanted a culture that encouraged managers to think and act more like entrepreneurs. Based on that concept, they thought about what entrepreneurs do.

"If I'm an entrepreneur running a small business, the first thing I don't do is go out and hire an HR person," says Steve Molony, Beam's director of people strategy and solutions. "If I'm starting a small business, I should be making all these decisions. Big companies get bloated with bureaucracies and these big, huge back offices that remove the business leaders from making some of these decisions. We wanted to reverse that trend when we were still lean and nimble enough to do this."

Beam hopes to nurture what Molony calls "holistic managers," who take on deeper HR responsibilities. "That means they don't just have their job of operational and financial management of whatever part of the business they're in," Molony says. "But their responsibilities are to attract, develop, retain and compensate the people on their team, which are traditional HR roles that would have been done by centralized HR teams."

Take plant managers. In the past, they would tell HR what role needed to be filled, wait for a list of candidates and then be told the new hire's start date after making the selection.

In the future, plant managers first will decide whether the job is necessary. If it is, they next would decide whether they have an internal successor or need to look outside. They also would look at market data about salaries, negotiate the pay and onboard the new hire.

The change isn't happening overnight. It requires training, such as helping managers and other leaders understand what would happen if they paid everyone at the 75th percentile of the market, for example. And they won't be without help from seasoned HR professionals—just fewer of them.

As part of its transformation, Beam is centralizing its disparate HR departments.

It has adapted the business-partner model first championed in 1997 by Dave Ulrich, a business professor at the University of Michigan. His model rests on three pillars: a shared service center, whose centralized staff handles administrative and transactional tasks; centers of excellence, which offer specialized consultants on topics such as training or labor relations; and business partners who advise business-unit leaders on talent strategy such as succession plans.

Beam didn't adopt Ulrich's framework wholesale. Its tailored tactic lets the company have a leaner business-services staff and fewer HR business partners, Molony says. In the traditional framework, those HR practitioners would have handled many of the activities Beam envisions managers taking on.

The goal: Develop a better caliber of business leaders that will help Beam outperform its competition. It's not an HR cost-cutting exercise, Molony says. "We feel like if we give our business leaders these skills, it will differentiate us in the market," he says.

The goal of HR leaders becoming business leaders and front-line supervisors taking on more HR-like work remains an aspiration, not a reality, particularly for small to midsize employers. "The HR people are absolutely drowning in many cases in the transactional-type stuff," says management consultant Susan Heathfield, who covers HR for About.com.

At some companies, talent leaders see the potential for other departments to take over aspects of HR. At digital advertising agency Razorfish, Anthony Onesto, director of technology talent development, has asked his recruiting and marketing teams to get together so they work more closely and think about recruiting as a marketing effort. He acknowledges that recruiting likely will not become part of the marketing department, but he also thinks that much of what an HR department does could be done elsewhere.

"This HR group could be dissolved, and folks could be handed some of the responsibilities, and I think we would be OK," says Onesto, emphasizing it's a theory, not a plan. But if it happened? "There would be no need for someone like me," he says. "I would have to reinvent myself. I've done it before."

Other companies already rely on managers to lead aspects of what an HR department does elsewhere. The Container Store Inc., a Coppell, Texas-based retailer with 58 locations nationwide, holds store managers responsible for career development and employee morale, says Eva Gordon, vice president of stores. The Container Store also is famous for its training—263 hours for full-time employees in their first year.

"We hire fantastic people, we train them really well to understand leadership and communication, so who better to manage careers and guide people and answer their questions than their manager?" Gordon says.

Susan Meisinger isn't so sure. "You can't tell me there isn't somebody who is making sure that no matter how they're doing their talent recruitment, that it is being done in accordance with law and that they're reaching a pool of candidates who have a higher likelihood of success," says Meisinger, a consultant who retired as president and CEO of Society of Human Resource Management in 2008. "You can't tell me there isn't going to be some consultation going on when there are performance issues, sort of an adviser somewhere in the corporation to help managers improve performance when there are performance issues."

At Netflix Inc., recruiting largely is considered the responsibility of the hiring manager. The recruiting team handles transactional aspects, and managers determine the market price for salaries through multiple channels, according to spokesman Jonathan Friedland. He declined to elaborate or comment further.

The video-streaming company raised eyebrows in 2011 when it sought a new HR director. Netflix specified that it wanted someone who "thinks business first, customer second, team and talent third" and did not want "a change agent, an OD practitioner, a SHRM certificate, a people person."

Some observers saw the job posting as a reflection of the C-suite's frustration with the HR field, which struggles to shed its image as little more than open-enrollment gurus and rule enforcers.

"HR has been for many years scoring on its own score card," says Dick Beatty, professor of human resource management at Rutgers University.

A recent study suggests Beatty's right. "Help people grow" was the No. 1 reason HR leaders cited for entering the profession, according to the New Talent Management Network, a group of HR professionals started by Avon Products Inc.'s former vice president of global talent management.

"It's lovely to talk about 'business partner' and 'seat at the table,' but the challenge for HR leaders is: Do they understand what's being served at that table?" says Marc Effron, president of the consulting firm The Talent Strategy Group and founder of the network. "It's a business meal. It's not an HR meal."

This gap may explain why CEOs rank talent as a top priority but don't mention the HR function.

For example, Irv Rothman, president and CEO of HP Financial Services, a wholly owned subsidiary of the Hewlett-Packard Co., keeps talent management as a standing item on his executive team's agenda. But he doesn't see it as something the HR department should lead.

"It's not an HR process," Rothman says. "It's a business process because it's the business that sees people in action. HR has a role. They have a role in creating the environment and creating the infrastructure. For HR to conduct talent management to me seems a little . . . I don't know."

In his book, *Out-Executing the Competition*, Rothman recommends that no CEO delegate the cultural implications of a merger to the HR department, which he describes as good at such things as benefits. "If the HR department is delivering that message and achieving that visibility, it's not the inspirational leadership that people are looking for in the aftermath of a merger when just about everybody is as nervous as cat in a roomful of rocking chairs," Rothman tells Workforce.

Survey after survey continues to find that HR leaders are viewed as low status and better at transactional tasks than strategic planning. "If we're doing our job well, people don't say those things," Effron says. "It's very easy for HR to whine that people don't respect us, but people respect those who deliver results." The solution? Attract a fresh pool of talent into the field that understands business and wants to maximize profits, Effron says. "In many ways, it's not: 'Can we teach those in the field to do it better?'—it's: 'Can we get different people in the field who truly understand what it takes to succeed in this area?'" he says.

During the recession, many global organizations learned that they could do more with less if they had flatter HR departments, fewer job grades and health plans, and used more self-service tools, says Harry Osle, The Hackett Group's global HR transformation and advisory practice leader.

The result: Leaner HR departments that add more value for every dollar spent than their peer groups and run by

professionals skilled in analytics and consulting. "HR organizations in the future are going to be a lot thinner," Osle says, "but they're not going to disappear."

Meisinger, the former SHRM president, says HR departments historically have become leaner during economic downturns. It's more efficient to have managers do a better job of managing than wait for people problems to emerge and be pushed over to HR.

But even companies that boast that they have no HR department retain someone with HR expertise to help guide recruitment and talent management, she argues.

Still, technological advances will continue to transform the field. Companies have "dramatically" more self-service tools available now than they did 10 years ago, Meisinger says.

"That's freeing up HR to focus on what it should be: getting in the right talent and making sure they're developed appropriately and looking at the strategy of the business—where is the business going and what are the talent needs?" Meisinger says. "There are a lot of folks in HR who grew up in the transactional world who aren't equipped to operate in the strategic world."

## Critical Thinking

1. Does the centrality of the HR function vary depending upon the industry within which an organization operates?
2. How might the HR function need to reinvent itself to address criticisms lodged against it?

## Create Central

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