A review of the strategic HR role in Australian organizations

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ABSTRACT

This study analyses 1372 on-line responses to a national survey of the membership of the professional body of the Australian Human Resources Institute (AHRI). The results indicate that HR professionals have strengthened their strategic positioning within Australian organizations but there is also evidence of a potential narrowing of the HR professional’s career path, and a failure to provide HR metric information to management. Despite strategic progress, therefore, the restricted career breadth of HR professionals and inadequate measures of HR’s contribution to the bottom line may ultimately impact on the credibility of those involved in the HR function and moderate the successful continuation of the involvement of HR at the senior decision-making level.

Key words: HR function, strategic HRM, HR careers, HR metrics
Effective human resource (HR) management is viewed increasingly as a source of competitive advantage (Wright, Dunford & Snell, 2001). This realisation, coupled with the growing capacity of Australian organisations to deal directly with employee relations at the workplace level, has elevated the status of HR professionals and raised expectations about what they can add to the bottom line. Although this transition has presented people working in the HR function with an opportunity to make a more comprehensive contribution to organisational success, the transition demands a considerable re-configuration of the roles and skills adopted by HR professionals (Beer 1997; Ulrich, 1997). The primary aim of this research is to report on the extent, and impact, of the role change in the HR profession in Australia. Specifically the present study provides an updated profile of those working in the HR area, reviews changes in their role, reports on their experiences as strategic partners and establishes the extent to which HR managers are providing feedback to senior management about successful HR initiatives.

With respect to the profile of those working in the HR area, Dowling and Fisher’s 1995 study revealed increasing levels of higher education among HR professionals. This commitment within the professional HR group to further study provides an important potential source of credibility when these individuals are contributing to strategic discussions (Dowling & Fisher, 1997). In the 1995 study, there was also a reported tendency for younger HR professionals to begin their careers within the HR area. Concern was expressed in the 1995 research however that although this choice allows strong development in the HR field, the narrowing of the career base may have negative implications for the acquisition of broad based business skills. Recently Sheehan (2005) has noted the importance of a broad career background for HR professionals who are operating within the strategic decision-making processes. HR professionals who begin their career in the HR area are less likely to gain this career breadth and this may pose challenges for HR professionals who are establishing roles in strategic business decision-making partnerships. The research questions associated with the first area of investigation are:

1. Are educational levels of HR professionals continuing to increase? and
2. Where are HR professionals beginning their careers?
A key feature of the role shift from Personnel to HR has been the expected closer relationship between HRM and organizational strategy (Cleland et al., 2000; Khatri & Budhwar, 2002; Michelson & Kramar, 2003; Sheehan, 2005; Teo, 2002). Although there has been some evidence of a shift to a more strategic role for HR professionals there is still some doubt about the extent of the change. Fisher & Dowling (1999) reported that senior HR managers had, at that time, internalised key features of a HR approach and largely moved away from the personnel mindset. Despite these positive reports, the HR function has traditionally faced a challenge to justify its position within organisations (Delery & Shaw, 2001; Stewart, 1996). Other commentators of HRM confirm difficulties for the expected strategic HR role change (Kochan & Dyer, 2001; Storey, 2001). Kane and Palmer (1995) and Wright, (1995) have stated that the extent to which HRM has been adopted in Australia has been debatable. More recently Michelson & Kramar (2003) have reported evidence of the growing implementation of a HRM approach but suggest that there is considerable variation across organisations. These authors describe perceptions of HR’s contribution to strategic outcomes as ‘moderate’ to ‘fair’ with evidence of remnants of the view of HRM as an administrative function. There is therefore a lack of consensus on the extent to which HR has actually taken on strategic responsibilities. The research questions associated with the second aim of the research, to clarify the status of the strategic HR role, are:

3. **What is the extent of HR involvement in strategic planning approaches? and,**
4. **What are the reactions of HR personnel to the ongoing strategic focus of their role?**

Finally, in addition to reviewing the strategic positioning of the HR function, the current survey also reports on attempts by HR to measure its contribution to company performance, reflecting the increasing attention given by HR researchers and professionals to the measurement of HRM. A strategic approach to HRM involves the design and implementation of a set of internally consistent policies and practices that ensure that a firm’s human capital is enhanced via increasing capacity to learn and apply new knowledge, thus contributing to the achievement of business objectives and sustainable competitive advantage. A strategic approach to HR measurement adopts a broad approach, including the
development of system to measure the efficiency, effectiveness and impact (Boudreau & Ramstad, 2002, 2003; Lawler, Levenson & Boudreau, 2004) of HRM.

Three main types of measures, or metrics, may be applied to HRM. First, **efficiency** metrics focus on the cost of an HRM practice, such as the administrative cost per employee of a training program, to determine the return on investment (ROI). While these measures can be useful, they reveal little about the value added by an HRM practice; they focus only on the cost. ROI measures are often designed primarily for budget justification and are typically unable to provide any guidance for how to improve an organisation’s return on investment in people. Second, **effectiveness** measures aim to provide an indication of the fit between HRM programs and the organisation’s business strategy. Typical effectiveness metrics include measures of the strategic skills and core competencies in the work force. They assess outcomes such as whether HRM programs and practices have the intended effect on people. For example, an organisation might use an employee survey to measure the degree to which employees are satisfied with a training program focused on improving customer service behaviours. Such measures are useful but still have some limitations. For example, measuring employee satisfaction with HRM programs does not reveal whether this has actually had an impact on organisational performance. Employee satisfaction surveys often have no known connection to business results. The third type of measures focuses on the **impact** of HRM programs and practices on organizational performance, by measuring the value added to an organisation by an HRM practice. For example, impact measures endeavour to demonstrate a link between training programs and tangible effects on the organization’s competitive advantage, such as reduced defects and increased production speed and service quality and retention rates following training programs.

It is important to note that there are numerous pitfalls of measurement for HRM (Pfeffer, 1997), such as measuring items that are easily available, or adopting a short-term focus. A measurement system should enable an organisation to obtain and evaluate evidence about the performance of HR policies and
practices, to ensure clear relationships between its goals and outcomes. A measurement system benefits the HR function by enabling it to move from subjective and intuitive measures to objective measures, to elevate the HR function to an equal footing with other functions, and to provide a valid justification for resource allocation (De Cieri, Kramar, Noe, Hollenbeck, Gerhart & Wright, 2005). The research question associated with the third aim of the research, to explore the measurement of the HR function, is:

5. To what extent are HR professionals measuring and providing feedback about HR’s contribution to the bottom line?

METHOD

This research was conducted in conjunction with AHRI as an officially approved project. The questionnaire was based on the items used in both Dowling and Deery's (1985) and Dowling and Fisher’s (1997) studies. A number of academics and practitioners were also consulted to make changes to accommodate developments in the last ten years. The survey was clearly divided into two sections. The first section was designed to include all HR professionals and the second section was designed to investigate HR’s involvement in strategic decision-making processes and included items developed from surveys conducted by Purcell (1995) and Buller and Napier (1993). This section was restricted to respondents who were senior HR managers.

AHRI members were contacted via email and invited to visit a web-site if they wished to complete the survey. As a web-based survey respondents were not requested to identify themselves and they were also assured that their responses would only form part of cumulative data. The email was sent to 12,437 members with a request to read a letter attachment. 5,966 proceeded to open the letter and of that group, 2,803 opened the web link to the survey document and began to fill in the questionnaire. A total of 1,372 members completed the web based survey and submitted a completed document. The response rate of members who attempted to complete the survey therefore was 22.5% and the rate for members who submitted completed surveys was 11%. There were a number of reasons why members may not have completed the survey. First, the opening statement explained that only members who were currently
responsible for HRM/Personnel or Employee Relations matters (working either ‘in house’ or as a consultant) were required to proceed with filling out the survey. This meant that line managers, academics or other functional managers who may be AHRI members would have selected out at this point. Second, the survey did not allow for non-response to specific items so some members may have exited the system prior to completing the survey because they did not wish to complete some of the items.

Despite the diminished response rate, the 1,372 members who did respond, provide a substantial sample size for statistical analysis. The sample characteristics also represent a fair cross-section of groups within the profession. There was a good spread across age with 28% of respondents falling into the 30-39 age group and 34% within the 40-47 age range. With respect to gender, 65% of respondents were male and 35% were female. There was also a good spread of respondents across the various industry groups as identified by the Australian Bureau of Statistics (ABS). Key groups identified in the national data, such as manufacturing, health and community services and education, were almost equally well represented in the sample for this study. Although the study sample has fewer numbers of respondents from retail and property services, these groups were still represented in the current sample. Overall the range of respondents represents a reasonable cross section of HR professionals with respect to age, gender and industry background.

RESULTS AND DISCUSSION

The first aim of the research is to profile the education and career choices being made by HR professionals. Data indicates that 46% of respondents have completed some form of graduate degree. This compares with 23% in 1995 and 9% in 1985 (Dowling & Deery, 1985; Dowling & Fisher, 1997). HR professionals are taking the opportunity therefore to increasingly improve their educational qualifications. With respect to career entry points younger respondents were more likely to enter the profession through the HR functional area (See Table 1 below).
The data indicates an upward creep in the number of younger HR professionals who are starting their career in the HR department and a reduction in the number who are entering their careers through marketing / sales and accounting and finance. The implications of these findings are that although HR professionals may be establishing credibility through improved educational qualifications, their exposure to a broad range of business experiences may be reduced if they restrict their career path to movements within the HR department.

### Table 1: Area of commencement of working career/Age cross tabulation

<table>
<thead>
<tr>
<th></th>
<th>20-29</th>
<th>30-39</th>
<th>40-49</th>
<th>50-59</th>
<th>&gt;60</th>
</tr>
</thead>
<tbody>
<tr>
<td>HR</td>
<td>32%</td>
<td>30%</td>
<td>29%</td>
<td>8%</td>
<td>0%</td>
</tr>
<tr>
<td>Marketing / Sales</td>
<td>22%</td>
<td>35%</td>
<td>30%</td>
<td>12%</td>
<td>0%</td>
</tr>
<tr>
<td>Accounting &amp; Finance</td>
<td>4%</td>
<td>31%</td>
<td>36%</td>
<td>24%</td>
<td>3%</td>
</tr>
<tr>
<td>Clerical</td>
<td>10%</td>
<td>26%</td>
<td>38%</td>
<td>23%</td>
<td>1%</td>
</tr>
</tbody>
</table>

Pearson Chi Square (15) = 97.67, p<0.01 significant

Sheehan (2005) found, in a series of case studies that looked at the credibility given to HR professionals at strategic decision-making levels, that HR professionals with broader business backgrounds were given more respect in strategic discussions. HR incumbents who choose to move straight into the HR function, therefore, could benefit from temporary placement in other areas such as finance or production.

The second aim of the study is to review the extent to which HR has actually taken on strategic responsibilities and the reaction of HR professionals to the strategic focus of their role. Using the distinction developed by Buller and Napier (1993), respondents from the sub- group of senior HR managers reported the following levels of involvement. As can be seen from the data reported in Table 2, an encouraging number of senior HR managers reported high levels of involvement in the strategic decision-making process with 49% reporting active involvement in all types of strategic decisions.
Table 2: Role of HR in strategic decision-making processes

<table>
<thead>
<tr>
<th>Description</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>The human resource area <em>provides operational support</em>, develops some internal programs to meet specific needs, but is generally viewed as a processor of paperwork and employment activities</td>
<td>39</td>
<td>8.3%</td>
</tr>
<tr>
<td>The human resource area <em>reacts to</em> strategic directions and requests from top management</td>
<td>32</td>
<td>7%</td>
</tr>
<tr>
<td>The human resource area provides <em>input into and reacts to</em> strategic directions set by top management, but only on personnel related matters</td>
<td>168</td>
<td>36%</td>
</tr>
<tr>
<td>The human resource area is <em>actively involved in all types of strategic decisions</em>, whether or not they directly affect personnel matters.</td>
<td>233</td>
<td>49%</td>
</tr>
</tbody>
</table>

Table 3 reports on results from a 5 point Likert scale measuring perceived levels of involvement at each stage of the decision-making process as defined by Purcell (1995). The results tabulated below are the summed frequencies of the number of people who indicated both high and moderately high involvement in all stages of the decision-making process. Again the self reports of involvement are quite high but it is interesting to note that the highest involvement was reported in what is primarily a reactionary role, the implementation of decisions made.

Table 3: Extent of high involvement at stages in the decision-making process

<table>
<thead>
<tr>
<th>Stage</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Drawing up proposals</td>
<td>58</td>
</tr>
<tr>
<td>Evaluating financial consequences</td>
<td>41</td>
</tr>
<tr>
<td>Taking the final decision</td>
<td>49</td>
</tr>
<tr>
<td>Implementation</td>
<td>83</td>
</tr>
</tbody>
</table>

Results presented in Table 4 indicate that full HR representation on boards of directors has increased slightly since 1995 and there is greater recognition of HR’s role on senior management committees. Overall then results indicate that HR managers are reporting increasing levels of strategic involvement.
Table 4: Senior committee representation of HR

<table>
<thead>
<tr>
<th>HR representation on the board of Directors</th>
<th>1995 n=837</th>
<th>2005* n=1372</th>
</tr>
</thead>
<tbody>
<tr>
<td>No representation</td>
<td>55%</td>
<td>35%</td>
</tr>
<tr>
<td>HR Representative</td>
<td>17%</td>
<td>21%</td>
</tr>
<tr>
<td>Representative with HR as part of their responsibility</td>
<td>28%</td>
<td>27%</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>HR representative on the senior management group at the enterprise level</th>
<th>n=821</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>56%</td>
</tr>
<tr>
<td>No</td>
<td>44%</td>
</tr>
</tbody>
</table>

*Missing data accounts for a total less than 100%

Before leaving this section that reports on the extent of, and impact from, the shift to a more strategic role, a final item reported on the reactions of senior HR managers to the question “In your organisation, what are the most limiting influences / factors upon the HR input into senior strategic business decision?” Responses are presented in Table 5.

Table 5: Limiting influences on HR strategic integration

<table>
<thead>
<tr>
<th>Limiting influences on HR strategic integration</th>
<th>n= 473 respondents could tick more than one response</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of CEO support</td>
<td>80</td>
</tr>
<tr>
<td>Lack of acceptance by other senior managers</td>
<td>106</td>
</tr>
<tr>
<td>Unsympathetic company culture</td>
<td>71</td>
</tr>
<tr>
<td>Poor understanding of the value of HRM to the bottom line</td>
<td>211</td>
</tr>
<tr>
<td>None, HR is fully integrated into the senior decision-making process</td>
<td>189</td>
</tr>
</tbody>
</table>

Of the responses that identify limiting influences, poor understanding of the value of HRM to the bottom line and lack of acceptance of HR by other senior managers were the most dominant reasons given as barriers to HRM integration. This brings the discussion to final aim of the research, to consider the extent of attempts to measure HR’s contribution to the bottom line.

The data relating to attempts to measure HR outcomes revealed that the most popular measures used to report on HR efficiency were headcount (68%), employee turnover rates (67%) and OHS statistics
(61%). With respect to effectiveness, 43% of respondents reported feedback on financial measures of HRM operations such as cost–per-hire and training costs, and 30% reported evaluations of specific HRM programs. With respect to attempts to actually measure the full impact of HR programs however the responses were not as strong (See Table 6).

<table>
<thead>
<tr>
<th>Table 6: Impact measures of HRM</th>
</tr>
</thead>
<tbody>
<tr>
<td>n=1372</td>
</tr>
<tr>
<td>Are the connections between the measurement approach and organisational performance clear?</td>
</tr>
<tr>
<td>Does the measurement system support decisions about HRM programs before they are implemented (as opposed to evaluation after the fact)?</td>
</tr>
<tr>
<td>Can the measurement approach reveal when HRM programs should be discontinued?</td>
</tr>
</tbody>
</table>

CONCLUSIONS

The findings of the research reveal a strengthening of the strategic role of HR professionals with nearly half of the senior manager respondents reporting an active role in all strategic decisions and similar involvement at each stage of the decision-making process. HR representation on senior committees has also increased since 1995. Overall these findings suggest that organisational structures are adapting and providing HR with an opportunity to participate at the senior level.

It could be argued on the basis of the findings, however, that although there are now greater opportunities for HR to be strategically involved, there are still gaps and challenges that members of the HR profession have to manage. For example, although the profile of HR provided in the study indicates that members of the profession are continuing to establish credibility through education qualifications, they are also making the decision to enter into a HR career by using the HR department as a career entry point. On the one hand this reflects growing confidence and acknowledgement of HR as a chosen career option but this trend also has implications for career breadth opportunities for those within the HR area. There is a growing expectation, especially for those professional members who eventually attain strategic planning roles, that HR representatives have greater credibility when they have a varied business background.
(Sheehan, 2005). The challenge for HR professionals then may become one of exploring opportunities, outside the chosen area of HR, for broader business competency development.

Another issue that arises from the data is the need to provide more detailed confirmation that HR involvement actually results in positive outcomes for business. The senior HR management group in the study indicated that poor understanding of the value of HR to the bottom line was the most limiting factor on the strategic integration of HR. Questions relating to the use of HR metrics however reveal that, although respondents report quite high levels of measurement of HR activity, only 24% of respondents indicate efforts to connect HR measurement with organisational performance. This relatively low level effort to connect HR’s contribution to the bottom line has implications for the continuing justification that HR can give for its strategic role in Australia.

In summary, the results of this study suggest that HR professionals have strengthened their strategic positioning within Australian organizations and this development represents a positive step towards the recognition of a business partnership role for HR. The potential narrowing of the HR professional’s career path, and the failure to provide HR metric information to management, are areas however, that require development and attention. Both of these factors impact on the credibility of those involved in the HR function and may be instrumental in the successful continuation of the involvement of HR at the senior decision-making level.

REFERENCES


