

AN INTERVIEW WITH MIKE LOSEY, TONY RUCCI, AND DAVE ULRICH: THREE EXPERTS RESPOND TO HRMJ'S SPECIAL ISSUE ON HR STRATEGY IN FIVE LEADING FIRMS

Interviewed by HRMJ Guest Editors:
Mark A. Huselid and Brian E. Becker

As a postscript to this HRM Special Issue on HR strategy in five leading firms, three preeminent experts in the field of human resources provide their reactions and comments. Mike Losey is President and Chief Executive Officer of the Society for Human Resource Management (SHRM), Tony Rucci is Dean of the College of Business Administration at the University of Illinois at Chicago, and Dave Ulrich is Professor of Business at the University of Michigan. © 1999 John Wiley & Sons, Inc.

Interview

HRMJ: One of the key conclusions of this special issue of HRMJ is that the foundation of a value-added HR function is a business strategy that relies on people as a source of competitive advantage and a management culture that embraces that belief. Do you agree with this assessment? If so, what are the two most significant challenges to implementing such a strategy?

Mike Losey: As President and CEO of the Society for Human Resource Management, one might expect that I would be the first to suggest that, in today's world, effective human resource practices and systems are key to organizational success. In fact, the SHRMJ Foundation is very proud that it had the opportunity earlier in this decade, to fund part of the original work done by Mark Huselid and Brian Becker on linking HR strategies and practices with a firm's financial performance.

For an organization's HR function to offer real value-added competitive advantage it means that some companies in an industry

must do a better job than others in developing and implementing what really contributes to being number one or two in that industry. It means measuring those contributions the way the shareholders, the board of directors, and the financial analysts measure success—by financial results.

Who is the customer for the HR professional? At the most senior levels it is the CEO. Therefore, if we exist to provide what the customer wants, what does the CEO want? That answer is easy. The CEO wants growth—growth in market share, revenue, and profits. I have yet to meet the CEO who says, "Last year our market share was 30%, but 25% will be okay for this year" or "Profits were \$100 million—let's just do that again".

The challenge for the HR professional is to ensure that the CEO understands that the only way for the organization to achieve that growth is by its people, the true source of competitive advantage. Not so many years ago, productivity was driven by a manufacturing, mass production economy that applied the efficient mechanics and discipline of Frederick

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Winslow Taylor. Henry Ford was supposed to have once asked, "Why do employees insist on bringing their heads when all I need is their hands and feet?" Workers were not paid to think in such a workplace, but simply work as directed. Henry Ford's gratuitous \$5 a day wages in 1914 were not a reflection of generosity but, instead, an attempt to correct the largest obstacle to his new company's growth—a 380% annual turnover rate! His attempt to buy employee interest and loyalty never paid the expected dividends. Simply "throwing money off the balcony" at people problems did not work then and will not work now.

Today, workplace skills are much greater and are driven primarily by a white collar and service workforce of close to 100,000 million. With only slightly greater than 30 million employees in traditional blue-collar jobs, these employees' influence has proportionally diminished (although their productivity has increased).

To understand the difference, one needs only to examine the dynamic changes in the workforce, including its demographics and its skill shortages. Examine the requirement to shift from a low skill, low paid, high capital machine investment, mass production, largely unionized manufacturing economy to a customized production, services and information economy comprised mostly of higher skilled, well paid, union-free, mobile workers who sit behind \$3,000 personal computers expensed out of petty cash. Unlike the production worker, we have no accurate way to measure the productivity of today's knowledge workers, but we know they must be innovative and display teamwork, interpersonal communication, process improvement, and many other skills. Surely we want them to come to work with their heads.

As highlighted in the articles in this issue, technology, bricks and mortar, and manufacturing processes can be quickly duplicated. People working together for the shared interests of the organization, "where the company is not the enemy", is what the CEO must recognize is the "new HR" and that without it the organization is at great risk.

Surely Herb Kelleher, Southwest Airlines' CEO, found this out more than 25 years ago when he embarked upon starting a new airline in an industry where all competitors pay

the same for their fuel, airplanes, equipment, wages, and benefits. His market share has grown dramatically, and Southwest has always been profitable. How has he done it? By realizing it is people who make the difference. It is the people who turn the plane around in less than 30 minutes, not one and one-half hours. It is the people who have the attitude that it is good to have fun at work.

Yes, CEOs must realize that HR is no longer just administration, transactions, compliance, and keeping complaints to a minimum. HR is now the bottom line stuff. It is a profession. Not everyone can do it.

The result will be a greater demand for human resource competencies in our organizations, not necessarily more people in HR. Those who are not competent are at great risk, as it should be in any demanding profession. **Tony Rucci:** Generally, yes, I do agree with those conclusions. Two challenges? Of the two most significant challenges, number two is probably ranked 50th in relative importance, so let me focus on #1. The most significant challenge in implementing a strategy based on people as a source of competitive advantage is finding and developing leaders who really believe this stuff. Most firms state that "people are our most important asset" in their annual reports, but I'm convinced that not more than ten *Fortune* 500 executives really believe that the intellectual capital resident in the heads of employees is a source of competitive advantage. But those ten really are committed to devoting time and energy to leveraging those assets embodied in people. A key example is Sears' CEO, Arthur Martinez. He is extraordinary. He allowed me to take risks that I'm not sure I would have allowed me to take, if the roles were reversed. He was very good at allowing people to take risks and do what they do best. And that's the essence of really believing in people as assets . . . that you trust them enough to let them try their ideas.

Dave Ulrich: Culture is a key part of a firm's competitive advantage for a number of reasons. First, culture helps turn idiosyncratic and individual events into patterns. Often, HR practices may be redesigned for a number of reasons. . . other firms have done it, an advisor suggested it, or the idea came from a conference or reading. Any time HR professionals

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focus exclusively on any one practice, it leads them astray. When each individual HR practice is unified into a common mindset or culture, the practice becomes part of a pattern. For example, some firms have benchmarked a leading firm's leadership development program, then tried to adapt (not adopt) that program in their firm. Much to their chagrin, the program that showed outstanding results in the first firm failed in the second. Why? In the first firm, the leadership program was woven together as an overall part of leadership development, coupled with performance management, compensation, succession planning, and career management initiatives. As a whole, these initiatives created a leadership culture and individually, they were unique events. The new patterns embedded in the culture and changed employee behavior and action in ways that are not easy to copy, thus part of a competitive position.

Second, when culture is defined externally as a firm's brand more than internally as a set of values, competitiveness increases. A firm's brand represents how the firm is seen by external customers—its identity. Marriott or Virgin stand for service, 3M for innovation, Harley Davidson for its rugged individualism. These brand identities, not linked to a specific product, represent an external view of a firm's culture. The power of this external view of culture comes as customers pay a premium for goods or services offered by firms with a strong firm brand. HR professionals who understand culture as firm brand create economic value because culture begins to represent more than internal values.

Third, a firm's external brand or culture may be unique. Competitors may copy or match price, product, technology, or strategy, but it is more difficult to replicate culture. Competitors may match the Disney rides, but they have a more difficult time matching the experience Disney creates. This experience gives Disney theme parks a strong advantage over competitors.

Finally, culture creates competitiveness because it changes employee behavior. Employees who think and act consistently with the desired firm brand add value to the customers; they anticipate and meet stated and unstated customer needs; they exceed customer expectations; they ensure that customers will return for repeat business.

Creating culture as firm brand and making it real to every employee requires starting within the mind of key customers: What do we want to be known for in the future by our most important customers? Deriving consensus on the answer to this question will help make culture more than rhetoric. This culture may then translate to employee behavior either through HR practices (e.g., hiring, training, communicating, compensation against culture criteria) or through employee behavior (e.g., distorting time to activities related to culture).

HRMJ: Another conclusion that we drew was that a value-added HR function will be characterized by operational excellence, a focus on client service for individual employees and managers, and delivery of these services at the lowest possible cost. Can an HR function simultaneously pursue cost control and value creation? Do you have any insights into how they can manage this balance?

Mike Losey: Of course they can and must. No one gives the engineer all the resources s/he desires to design the product or service. The manufacturing-function people do not receive all they ask for to produce the product, nor do sales or marketing get all they ask for to sell it and market it. Why should HR be any different?

Historically, the only justification for not applying the same cost restraints may have been because personnel worked with the part of the company that walked on two feet—the people. Sure, good employee relations, competitive and fair employment terms and conditions, the absence of arbitrary treatment, interest in employee development, and employee health and safety should always be a goal; however, no HR professional should expect the CEO to simply give him/her all the needed resources to get the job done.

I once had a CEO say to me what he hated most about HR people was that they wanted to solve all of their problems by “Throwing money off of the balcony”. Fortunately, the comment was not directed at me, but I have never forgotten it.

Maintaining an excellent employee relations reputation simply by providing superior pay, benefits, and other conditions is not difficult. What is difficult is doing your job like

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most other HR professionals—with limited resources. Such an approach must include innovative practices, genuine interest in employees, and good communications and execution. These can only be earned, not bought.

Tony Rucci: All you have to do is look at world-class organizations to find that not only is it possible, but it is also a defining characteristic of these firms. For example, look at Toyota—world class in both quality and low cost. The Mayo Clinic is a world-renowned source of medical expertise and a low-cost provider of clinical protocols and surgical procedures. How do they manage this balance? They ruthlessly set priorities. You can't be all things to all people, so you need to identify those things that are driven by business priorities and let them be where you focus your energies.

Dave Ulrich: Value has become a concept with many definitions. I have used a rather simple two-step definition of value. First, value is defined by the receiver more than the giver. In any transaction, givers may produce goods or services, but the value comes from the response by the receiver. For my son's graduation, I finagled tickets to an NBA finals game. He, the receiver, was enthralled because he likes the NBA so much. While I the giver enjoyed the gift, he was the definer of the value of this gift. HR professionals are the givers or creators of programs and services, but they cannot define the ultimate value by themselves. The impact of HR practices on employee commitment, customer mindshare, and investor perceptions become the value created.

Second, I would operationalize value as: cost times quality. Sometimes, people assume that low cost equals value. Not true. If cost falls 20%, but quality falls 50%, value has been eroded. In fact, at times, cost may go up 10%, but if quality goes up 30%, value is created. Paying more for higher quality employees may create value because their productivity far exceeds their costs. Value is created when both cost and quality are managed.

Costs come from doing work better, faster, and cheaper. This may mean that an HR function invests in technology to automate administrative, routine work that would have been done by many HR employees. Ser-

vice centers where processes may be standardized and done more efficiently create value primarily by lowering costs while increasing quality. Outsourcing may reduce costs because the supplier has economies of scale and the cost per unit produced may be reduced.

Quality comes from aligning HR work with business strategy and creating ways to transform an organization. HR generalists create value by working with business leaders to diagnose organization capabilities, to broker expertise to solve business problems, and to ensure the talent to meet organization goals. HR specialists who work in centers of expertise create value when they share knowledge from one organization unit to another, offer menus of best practice HR choices, and provide tailored solutions to business problems.

HRMJ: A third conclusion that we drew was that a value-added HR function requires HR managers who understand the human capital implications of business problems and can access or modify the HR system to solve those problems. Do most HR professionals have the skills necessary to do so? If not, where are the greatest gaps?

Mike Losey: This again gets back to competencies. The HR professional must know more than just the functional areas of human resource management. For instance, almost 30% of the Senior Professional in the Human Resources (SPHR) test is composed of general management practice questions, not specific HR questions.

Many of those in HR do lack a comprehensive understanding of the profession. The greatest gap exists in general HR knowledge. HR is a profession, but it is an emerging profession—a twentieth century profession. Last year, Cornell University's School of Industrial and Labor Relations celebrated its fiftieth anniversary—but only its fiftieth. Medical schools, law schools, and other professional educational institutions have been around for hundreds of years.

A field is generally not considered a profession until it meets certain requirements. The basic ones are that the profession has a body of knowledge, and that it can be defined, taught, learned, and tested. In addition, it should have its own ethical standards and be global.

Human resource management is rapidly gaining credibility as a recognized profession. This means that not everyone can do this job.

The disappointment is how many people enter this field or are placed in it without a clear understanding of the professional requirements. They feel the burden of not being properly prepared yet, on many occasions, I have asked if they even bothered to buy an introductory HRMJ textbook. Too frequently the answer is “no”. Our profession is burdened by such individuals. They believe or hope that their own good judgment will get them through and protect them. We have long known that you “cannot sell from an empty wagon”, and you cannot do HR “from an empty head”.

Tony Rucci: This is a loaded question, and generalizations are always dangerous. I think that most HR professionals have the necessary professional and technical skills, but they don’t have sufficient levels of economic literacy. And by economic literacy, I don’t just mean the ability to read P&Ls or balance sheets—although this is important—but a much broader understanding of the business and its competitive environment. HR professionals should be able to answer the following questions: (1) What business are you in?, (2) Who is your core customer?, (3) Who are your primary competitors? It sounds simple, but if you can’t do this, you are behind in the game.

What business are you in? What is the primary product or service your firm offers, at a really fundamental level? Does Ford sell cars? No, they sell transportation, reliability, and service to a particular customer. Why does the customer give your firm the permission or authority to exist?

Who is your core customer? You may think you know, but not many companies really take the time or expend the energy to be sure. How does your core customer differ from the competition’s? And, how does your core customer feel about the product or service your firm provides? When was the last time you as an HR professional talked to a customer or reviewed customer satisfaction scores or comments?

Finally, who are your key competitors? Most importantly, do they relate to the core customers differently or better than your firm? Do you learn from your competition, as well as your customer?

Dave Ulrich: HR professionals must be competent. Like any professional, they must know theory, research, and practice. When HR work depends on anyone’s opinion and interpretation, professionalism turns into fadism, and quick fixes replace integrated solutions. A profession has a body of knowledge, a theory base, and a set of accepted practices.

Our research over the last decade with colleagues Wayne Brockbank, Dale Lake, Arthur Yeung, and Connie James into the competencies of HR professionals indicates five clusters of HR knowledge and skill.

Know the Business. HR professionals must know the business, which is the ticket of admission to business discussions. Without being able to easily talk about finance, marketing, customers, technology, competitors, and business strategies, HR professionals will always be afterthoughts. In one firm, the CEO worried that the intangibles of his firm were 50% those of his largest competitor, meaning his competitor received double market value than his firm for the same earnings. When asked about how HR helped him with this problem, he said, “I like my HR person. He is competent and thorough, but this is business. He can’t help me with this problem.” HR professionals must know the minds of their senior leaders and deal with those problems in business terms.

Master HR Practices. HR practices derive from theory in multiple disciplines . . . learning theory informs training; motivation theory informs compensation choices; and cognitive theory informs culture. HR professionals need to know the theory and research behind high quality HR work. Then, HR professionals should be able to access and evaluate HR practices based on the theories in the field. We should be able to explain not only that training worked, but why. Finally, HR professionals should be able to access best practices through being current in the literature, active in trade associations, or connected through formal and informal networks.

Shape Culture. As stated above, a culture represents a firm’s equity or identity to key external customers. HR professionals who weave their work together to shape external

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culture turn events into patterns and create value in firm equity.

Manage Change. Every firm we know has increasing demands to move quicker, to change, to get things done faster than before. HR professionals create enormous value when they manage change at three levels. First, they can empower employees to quit doing unproductive work. In one firm, computers were delivered to the R&D labs staffed by employees with graduate training. These R&D employees were not able to set up their computers because that was “assigned” to the IT department, which meant new computers could not be used for weeks while scheduling the IT implementation. The HR professional who saw this problem quickly reacted and changed this policy. Second, HR professionals can create process discipline about change. Most people have more conceptual knowledge about change than knowledge about how to implement it. HR professionals may create the discipline of a pilot’s checklist for managing change, ensuring that things people know about change are actually carried out in a regular and rigorous way. Finally, HR professionals may surface underlying “viruses” or sacred cows that impair change. When a business has a quarterly crisis on closing out the books, when politics govern decisions more than competence, or when a “not invented here” mindset precludes using new ideas, viruses exist that keep change from happening. HR professionals may identify and expose these viruses.

Personal Credibility. In our work, we found the personal credibility central for successful HR professionals. It clustered into three factors. First, HR professionals have to live the values of the firm. We have seen firms that value openness, but HR professionals hoard data; that value integrity, but HR professionals act out of self interest; that value teamwork, but HR professionals act independently. Second, HR professionals need to work well on teams that they serve. Being a contributing team member helps HR professionals build chemistry and relationships of trust. Finally, Bob Eichinger and I have used the phrase, “HR with an attitude” to characterize HR professionals who take a position,

are proactive, and come to meetings with solutions, not just questions.

HRMJ: A key theme among the firms that we studied seems to be one of alignment: making sure that the HR practices that the firm adopts are coherent and internally consistent, and also making sure that this entire “bundle” helps to implement the firm’s competitive strategy. How would you define alignment? Is this something that is quantifiable? Is this something HR managers should explicitly measure?

Mike Losey: Yes there is something very quantifiable and that is: “If your organization went out of business tomorrow with no more service to give and no more product to ship, how long would you, as the head of HR, continue to come to work?”

Too many HR people “come to work” to do what they think needs to be done or to do what they like to do—not what really *needs* to be done to impact what the organization needs to succeed today and tomorrow. Some, I fear, could come to work for months even if the organization no longer existed.

The company picnic makes precious little difference if there is no company, yet so many times the things HR people do are not really what the CEO spends time on or has any interest in whatsoever.

Tony Rucci: My experience at Sears suggests that alignment can—and should—be measured. In fact, I think it is critical for firms to do so. For me, the concept of alignment is simple. Can a person at any level of the organization—from the loading dock to the sales force to the executive suite—answer the following question when they come to work each day: For the next eight hours, what is my job and how will it affect the success of the firm? The key issue is creating a clear line of sight between what I do in my job each day and the success of the firm. This is not just important—it is indispensable. It is the key thing that distinguishes the excellent firms from the not so good ones.

Dave Ulrich: The concept of aligned HR practices is not new. For example, in the 7-S model, McKinsey consultants examined how each “system” of an organization “fit” or aligned with other systems. A change in any one system would need to be sustained by

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changes in other systems. This concept of alignment remains prevalent in organizational diagnostic models. When changing the structure from functional to business unit, it requires subsequent changes in talent, compensation, communication, and governance to be sustained.

The concept of alignment, however, has gone beyond connection of the parts to defining what the collection of parts means as a collective entity separate from the individual parts. Numerous concepts describe this emerging view of alignment. In strategy work, the parts often add up to a core competence, which originally referred to the technical know-how of a firm (e.g., Honda makes engines). In quality theory, the parts add up to a process (e.g., order-to-remittance process). In some HR literature, this collection is called a high-performing work system.

In our work, we have referred to the collection of HR practices as creating organization capabilities or the unique abilities embedded within an organization. These capabilities are not universal and may vary depending on an organization's strategy. Time Warner, with a strategy of winning by converging multiple businesses, has focused on the capabilities of connectivity, talent, and leadership to help the organization make the whole more than the parts. Many consulting firms with partners and practices around the world have focused on knowledge management and the ability to share insights among partners as a key capability. Bankers Trust has highlighted three capabilities consistent with its strategy: managerial excellence, client responsiveness, and collaboration/integration.

As these and other capabilities are defined, it becomes critical to measure them as the “deliverables of HR” rather than measuring the “doables”. Doables represent activity measures: How many people were hired? How many went to training? What percent have a career plan? What percent received a performance appraisal? These measures, while easy to track, often fail to reflect what really matters.

I predict that the organization of the future will be measured by the extent to which it demonstrates some critical capabilities in-

cluding: shared mindset (the ability of the organization to craft a customer identity and relate employee behaviors to it), talent (the ability of the organization to attract, motivate, and retain individuals who have the ability to do future-oriented work), knowledge management (the ability of an organization to learn, innovate, and manage information from top to bottom and from side to side), speed (the ability of an organization to move quickly into markets and projects), and leadership (the ability of an organization to brand future leaders). These capabilities (and others) will become the deliverables of investments in HR practices. They will need to be measured and tracked like all outcomes (e.g., marketing tracks revenue per customer market share as the outcome of market research).

HRMJ: Tony, speaking of measurement, the systems that you and your colleagues developed at Sears have become very well known. What is the role of measurement in defining HR's strategic presence? Is it crucial or just nice to have?

Tony Rucci: How critical is measurement in finance? In manufacturing? In operations and logistics? In IT? I believe that it is crucial. Why should measurement in HR be any different? Measurement is crucial in HR, but firms have to measure the right things—and often they don't. Our measures need to be linked to the firm's customers and financial measures. In fact, I would argue that if there isn't a clear line of sight between your HR and customer and financial measures, you are probably measuring the wrong things. For example, many firms measure employee turnover or retention, and lowering turnover and retaining people are certainly important. But lower turnover tells you little about how committed you workforce is to the goals, values, and objectives of the organization. Lower turnover tells you little about how well employees are serving the customer. Measure the right thing, know what you're measuring.

HRMJ: A person with a background in manufacturing might argue that these relationships can only be quantified in firms with a very clear value chain, like retailing. Would the same measurement process you pioneered at Sears be equally applicable at Ford, for example?

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HR professionals should focus on creating change, not managing it. The focus should be on creating purposeful, goal-directed efforts at creating change in organizations.

Tony Rucci: Absolutely. It is perhaps more obvious at Sears, but think about firms like Toyota, Herman Miller, or Starbucks. These firms all manufacture a product, even if that product is a great cup of coffee. The Sears case showed a relationship between employee attitudes and customer satisfaction and financial performance. In manufacturing, employee competencies and attitudes are ultimately manifest in product design and quality. My view is that the ultimate objective for a firm is that these employee competencies and attitudes should become part of the firm's brand. For example, consider firms like Disney, Southwest Airlines, and Nordstrom. For these firms, employees are an integral part of the product that consumers buy, so, measuring brand equity is also measuring employee equity and capital in these businesses.

Ford is a superb example. It has undergone a tremendous turnaround over the last 10 to 12 years, to the point that this year it will generate more profit than any other corporation in the world. How has it been done? By focusing employees on quality—and measuring and communicating the results of their efforts.

HRMJ: You mentioned in the Sears case that maintaining the momentum in change efforts is very difficult. Any insights into how this can be done? The most frequently cited challenge facing the HR professionals we interviewed was change management.

Tony Rucci: You have hit one of my hot buttons! I think that the term change management is the wrong one—it is too far downstream. HR professionals should focus on creating change, not managing it. The focus should be on creating purposeful, goal-directed efforts at creating change in organizations. To do this, you need to keep the gap in front of people whenever you can. No company is doing everything at world-class levels, so you need to continuously show the workforce where the gaps are on the firm's important strategic levers. At Sears, we had three years of monumental improvement across all of our most important metrics, but after all of that work, we were still only mid-pack against our most important external benchmarks. So, we kept putting this gap in front of people to help them understand where they needed to improve.

HRMJ: At Sears you had a lot of support from CEO Arthur Martinez in your efforts to establish a strategic role for HR. Many senior HR managers are not so fortunate. What advice do you have for HR professionals who want to play a strategic role in their firm, but find little support among senior line management?

Tony Rucci: Good question. Certainly, it would always be nice to have the proactive support of your CEO. But I think that having the support of your firm's CFO is equally important. The CFO needs to be convinced that nonfinancial metrics are important because they are leading indicators of the firm's financial performance. So, if I didn't have the support of the CEO, I'd begin to work on the CFO.

Next, I'd find a core group of "believers". I have often heard CEOs say that "If I could only get the support and buy-in of middle management, we could move forward". I don't really think that this is the issue. I think that organizations sort themselves vertically, not horizontally, on any number of factors. I believe that only 1/3 of the employees at any given level in the firm really "get it" and want to change and move the organization forward; 1/3 of the workforce will comply because they think they have to; and 1/3 of the workforce will actively resist change efforts of any kind. At Sears, we had 12 members on the Executive Committee; 1/3 of them "got it" and were actively involved in the change process, 1/3 of them simply complied, and 1/3 of them wouldn't change if their lives depended on it.

In my career, the biggest lesson I've learned about creating change is this: I have spent too much time and energy on the bottom third that doesn't want to change. I have found that you need to focus on the top third, and devote your time, effort, and resources to identifying and supporting those people. I would say that if you don't have the support of the CEO, too bad, that's life. You need to get on with it. Find those employees in the top third and give them all your support.

HRMJ: Mike, what is the role of a professional organization such as SHRMJ in helping HR managers become strategic partners?

Mike Losey: Our role is to ensure that we do all we can to advance the interests of the

profession and the professionals in it. Unfortunately, there are low barriers to entry into the HR function. Few people get into HR as a career decision in college where they may have had the opportunity to prepare for a career. Even now, at the more than 300 SHRMJ university student chapters, we only have a total of 9,000 students. Although that may sound like a lot, given the reduction in schools offering degree courses in HR or even significant majors in the field, there are simply too few people gaining university-level education to sufficiently influence the profession. For instance, there are approximately 700,000 HR professionals in the United States, and some of them (5% or so) must be replaced each year because of death or retirement. Considering that the profession is expected to grow, by possibly another 5% a year, we may need 70,000 new HR people annually. Our student program will yield possibly 4,000 or 5,000 HR graduates annually, but only a portion of them will find their way into the profession. Where do the rest come from?

The answer is that they come from all over. There are successful people from customer service, administration, legal, manufacturing, engineering and other fields. They are good folks and the boss says either, “We are now big enough that we need a HR department and you are it”—or the boss says, “Those HR people are good people for the most part, but they do not understand the business”. Thus, many people who enter into the profession know little about the actual field of human resources and have never had formal education in it.

This is why SHRMJ’s emphasis is on providing current and useful information through its publications, research, and information center and library. In addition, it provides professional development and education buttressed by HR research through the SHRMJ Foundation and certification through its affiliate, the Human Resource Certification Institute (HRCI).

The profession is evolving, and with more and more serious-minded, qualified HR professionals, they are making a difference in their organizations. This is why we have had such explosive growth in our membership. For instance, it took SRHM more than 40 years

to grow to 40,000 members. However, given the growth of our programs and services and no increase in dues since 1990, our membership has increased by a multiple of three—to more than 120,000 members currently. SHRMJ is now, by far, the largest such HR professional society in the world.

Certification also has witnessed explosive growth. Since 1990, when HRCI tested approximately 2,000 people annually for their Professional in Human Resources (PHR) and Senior Professional in Human Resources (SHPR) certifications, the number of examinations has grown to more than 15,000 annually. We would like to think that HRCI’s certification has become the accepted national standard for individuals interested in satisfying first themselves, and then others, that they know the body of human resource knowledge. **HRMJ:** Dave, you have written quite extensively about employee competencies and organizational capabilities. In *HR Champions* you argued that HR managers must effectively balance four roles: (1) Employee Champion, (2) Change Agent, (3) Administrative Expert, and (4) Strategic Partner. In your view, in what areas do HR managers need to do the most work?

Dave Ulrich: The four roles we crafted in the mid-1990s have received a lot of attention. Some of the original insights still seem valid. First, an HR department must assume all four roles at a high level to succeed; it is not viable to ignore the administrative work and still function well as an HR department. Second, HR professionals need to engage line managers in a dialogue about which roles are most important at any one point in time. Third, no one person in HR has to excel at all four, but the overall department must be good at all four, which requires respect for roles not played by any one person. Fourth, each role implies a set of tools and/or skills to be successful.

With these continuing insights come some new thoughts. These are clearly not the only four roles played by HR professionals. Each role was originally assigned a “deliverable”. As new deliverables for HR become important (e.g., knowledge management), new roles for HR will emerge (e.g., knowledge manager or learning officer). In the global context, these roles will have to focus on managing the

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paradoxes of acquiring global leverage and local flexibility. The paradoxes in the roles may increase.

HRMJ: What do you believe to be the most significant barriers to the evolution of HR to a more strategic role in organizations over the next ten years?

Mike Losey: The most significant barrier are CEOs who do not realize that human resource management is a profession and believe instead that almost anyone can do it and thereby put senior people without the right skills and knowledge in the position.

Tony Rucci: I think that there are three significant barriers to HR playing a more proactive role in the next ten years: (1) Lack of basic economic literacy among HR professionals, (2) HR professionals who are not comfortable taking risks, and (3) HR professionals who don't demonstrate courage of conviction about their principles.

The use of the phrase "strategic partner" has been bugging me for ten years. HR managers should quit asking for a place at the table and just go out and take some risks. You are going to have to take some risks and be unpopular if you are going to create real change in an organization. If everyone likes the change management program that you have developed, I can guarantee you that it will not be successful. And when you champion unpopular ideas, your courage and principles will be tested. Can you continue to go in and do what you believe to be in the best interest of the firm in spite of the resistance? This is the test of a real leader, in any profession.

Dave Ulrich: HR professionals in many companies act strategically; they are participating actively in management meetings, turning ideas into actions, forcing dialogue of critical issues, raising alternatives to business investments, and taking a stand on HR investments. Where HR is playing a more strategic role, the following seem to apply.

First, measurement of HR work in business terms. One client who was working on faster decision-making focused on team-building so that product decisions could be faster. Another client used action-learning as a development experience so that global projects could be implemented. Asking the "so that" of HR work

forces a shift from the HR activity to the business impact. Measuring this business impact will be critical to HR going forward. The work on a balanced scorecard that shows a HR value chain (HR practices increase employee commitment, which in turn affects customer mindshare, which collectively affect investor value) must be continued and refined. The work showing how investments in bundles of HR (or capabilities) affect the intangibles of the firm needs more rigor and exposure so that executives appreciate the impact of HR work on their valued outcomes (share price).

Second, organization capabilities, HR practices, and HR professionals as business partners may shape business strategy, not just respond to it. There are some strategic decisions where HR professionals may not be qualified to comment. One retail company chose "chartreuse" as the dominant color scheme for the upcoming season. The merchant whose job it is to know consumer trends and make informed bets on future fashions had both insight and instinct on what color to pick. HR professionals may not need to know what color to pick, or they may not have to be involved in every strategy decision, particularly where they have little expertise. But, in other cases, the HR insights and instincts add enormous value. When Hallmark embarked on a flower and family nurturing strategy, this investment was tied closely to its culture, which the top HR executive understood intimately, thus allowing him to participate not only in the execution, but also in the shaping of this new business venture. HR professionals' proactive, aggressive, and timely role in shaping—not just implementing—strategy will likely grow as they gain more understanding of the business process.

Third, HR professionals need to quit talking to themselves and begin engaging with business people. HR professionals must learn answers to some basic business questions:

Where is wealth created for this organization?

Who are the customers, and why do they buy from us rather than a competitor?

What are the financial indicators our investors care most about and how can we make progress in them?

HR managers should quit asking for a place at the table and just go out and take some risks.

What is the next wave of technology and change for our industry and firm, and how can HR work help position the firm to succeed?

These questions can only be answered in dialogue with business leaders, not with HR people meeting and talking to themselves. Likewise, HR professionals should be aware of and see implications of emerging business issues such as: convergence, disintermediation, globalization, social responsibility, speed, technology, and other emerging business issues.

Fourth, HR professionals must continually learn. Programs and ideas that worked ten years ago and were built on solid theory and research likely need to be changed to meet current business conditions. In this sense, HR folks are their own worst enemies to change . . . we often find programs and practices we like and stick with them rather than letting them go. Being unrelenting about the pace of change will help HR professionals learn and innovate.

HRMJ: Tony, your career path has taken you from senior VP roles at *Fortune* 500 companies to the Deanship at a major business school. How can universities help to train the next generation of HR professionals?

Tony Rucci: When you use the word “training”, you raise the hackles of a lot of academics. Traditionally, schools and universities educate, while firms do training, which to me is more vocational or technical in nature. So, is the role of the university to train or to educate HR professionals? In either case, I believe that business schools should emphasize the criticality of innovation in organizations. How do the systems we create affect the ability of an organization to be innovative? This is a key issue.

It might sound like I am being critical of the profession; I'm not. The opportunity to create significant change through HRMJ has never been better, and I am scared to death that we will miss it. There have been many changes in our economy over the last 50 to 100 years. Since the beginning of the century we have moved an agricultural economy to a labor economy to a service economy. And I would argue that we have already transitioned from a service economy to an information

economy, which allows for the greatest potential contribution of people. I'm reminded of the story about Joe Scanlon, who made so many innovations in compensation systems, gain sharing, and Scanlon plans. He was a diehard union man. Supposedly at his retirement party, the management team got up and said nice things about him, maybe gave him a watch. His response was interesting. He said that for all these years, the firm had been paying him to use his hands, but for no additional money they could have had his mind, too. What a shame.

The moral here is simple. How do we educate and train HR professionals and HR leaders who create environments where people are allowed to come into work each day and do what they do best and contribute their ideas?

HRMJ: What is the role for academic scholars of HRMJ in this new reality? That is, what kinds of research should we be doing, and what kinds of research should we avoid? Are HR practitioners out in front of the academics? If so, what should be done about it?

Mike Losey: The role for academic scholars of human resource management is the same message as for CEOs. Not everyone can do this job. Help us prepare professionals. Quit subordinating HR courses to other departments and offer degrees in HR or at least significant majors.

The priority given to HR in the past was primarily driven by the fear factor associated with collective bargaining. The CEOs' risk was that, if not managed by someone who could ensure labor peace under reasonable costs measures, the union could do more harm and be a greater threat than any industry competitor. Also of concern was our nation's national labor policy and its competitiveness. Thus, the creation of labor studies programs and institutes at Cornell and other universities after WWII. With the decrease in the percent of union membership in the workforce, we may have also falsely assumed that such risks to the organization no longer exist.

Tony Rucci: The primary research focus should be on the impact of HR on performance outcomes—customer outcomes and financial outcomes. We should do more research on what creates excellent organizational performance.

HR professionals need to quit talking to themselves and begin engaging with business people.

The role for academic scholars of human resource management is the same message as for CEOs. Not everyone can do this job. Help us prepare professionals. Quit subordinating HR courses to other departments and offer degrees in HR or at least significant majors.

We should avoid research on “HR”. This is a profession that has spent far too much time worrying about the profession. Let’s quit worrying about the profession and start worrying about the health of our organizations.

Are HR practitioners out in front of the academics? It is a moot issue if both practitioners and academics come in 10th and 11th in an 11-horse race. While we’re busy arguing the point within the profession, we run the risk of becoming increasingly irrelevant in organizations. The question is whether or not they are both out in front of the competitive issues facing their organizations.

Dave Ulrich: It is unfortunate that the gap between academics and practitioners has widened in some cases. Someone described academics as astronomers in rooms with no windows. At times, academics learn more and more about theoretical constructs and research rigor but miss the underlying phenomenon being studied. Practitioners who avoid theory and research, on the other hand, will likely re-experience the same problem over and over, not fully understanding how to resolve it.

Academics should provide explanations of why things happen as they do so that things can be fundamentally changed. To do so requires understanding of the phenomenon being studied. It amazes me to read articles about “performance appraisal” and how to do it written by someone who has probably never had an appraisal or talked much to those who have had them. Theory and data may become sterile. I become afraid that the “Academy of Management” might more appropriately be retitled the “Academy of Ourselves” since we in the academic world too often talk primarily to each other.

Prescriptions for academics: get out, talk to executives, listen hard to interesting phe-

nomenon (e.g., in building his elegant theories, Karl Weick has listened long to and thought carefully about how fire fighters manage in a crisis and how jazz bands work). Once a phenomenon is understood, try to create theories that explain it in robust and unique ways (HR does not have to always draw its theory from economics, political science, or sociology, but can create new theories of firm and employee behavior). Visualize, draw, and depict theories as if they are holograms being looked at from all sides. Debate them with practitioners and academics. Find HR professionals who see the value of the theory and talk with them about the ideas; ask them to push back and show where the theory falls short. Draft the theory in rigorous ways to make sure that it is clear. Test it with hypotheses, measures, and data.

Practitioners, on the other hand, must not be lazy and rely on word of mouth or popular press to lead their work. They should be literate in theory and research. After a talk on learning to a conference of chief learning officers, where I referred to the seminal work by Chris Argyris, a number of chief learning officers (CLOs) in top firms asked how to spell his name. This might be excusable for neophytes, but not for the thought leaders in the field.

Prescriptions for HR practitioners: Find some authors you like and follow them; get on their mailing lists for early drafts, white papers, and so on, and comment on them; become part of the inquiry process; work to write up some of what you have done, and don’t be afraid to use references and sources to support your claims; attend academic conferences and read the work; think statistically—do mini-field experiments to constantly learn.

HRMJ: Thank you all for your insightful contributions!

Are HR practitioners out in front of the academics? It is a moot issue if both practitioners and academics come in 10th and 11th in an 11-horse race.

MICHAEL R. LOSEY, SPHR, CAE, President and CEO of the Society for Human Resource Management (SHRM), has more than 35 years of experience in human resource management. Before being named to the Society's top position in 1990, Losey served more than 28 years in management and executive-level positions with two *Fortune* 50 organizations. Losey is a frequent speaker and spokesperson on human resource and management issues to the SHRM membership, international groups, organizations, media, and Congress. Together with Dr. David Ulrich, University of Michigan, and Dr. Gerry Lake, he co-edited the recently published book, *Tomorrow's HR Management*.

ANTHONY J. RUCCI holds a bachelors, a Masters, and a Ph.D. in organizational psychology from Bowling Green State University. Dr. Rucci became Dean of the College of Business Administration at the University of Illinois at Chicago (UIC) in 1998. From 1979 to 1993 he was employed by Baxter, ending his career there as Senior VP for corporate strategy, business development, and media and investor relations. Between 1993 and 1998 he was Executive Vice President for Administration for Sears. He is a Fellow in the National Academy of Human Resources and was recently named to Human Resource Executive Magazine's Executive of the Year Honor Roll. In 1997 he was named *Executive of the Year* by the International Association of College and Professional Recruiters.

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