CHAPTER
2

How Human Resources Fits into an Organization

Chapter Overview

After reading this chapter, readers will:

- Understand the placement of human resources within an organizational hierarchy
- Be able to distinguish between line and staff activities and establish human resources as an essential staff operation
- Describe several models for organizing a human resources department
- Describe how the human resources operation is commonly organized to best serve an organization
- Appreciate the relationship between human resources and executive management and other organizational departments
- Understand the role of human resources when implementing changes within an organization
- Have reviewed the effects of re-engineering on services provided by human resources
- Appreciate contemporary trends regarding outsourcing human resource services

■ CHAPTER SUMMARY

The person heading a human resources (HR) department should report to an organization's chief executive officer. A variety of organizational structures are used in HR departments. These include models based on

clerical tasks, counseling, industrial relations, control and consulting. Some HR professionals have proposed similar approaches to HR organization.

Line and staff employees perform different tasks for an organization. Line operations advance the work of an organization. Staff operations support and enhance the work of an organization by making it possible to continue producing products or delivering services as intended.

The degree of effectiveness of HR depends on a chief executive officer's attitude toward that activity. As a staff operation, HR does not issue commands and is vulnerable to changes that result from reengineering. Outsourcing human resource services is relatively common.

Case Study: What Shall It Be and Where Do We Put It?

"Things were much simpler when we were just a small-town hospital with a four-person personnel department," said personnel director Sharon Kelly to her immediate superior, chief operating officer Don Thomas. "But now that we're a so-called health system, it's almost impossible to tell who is supposed to be doing what for whom on any given day."

Sharon's allusion to a system was in reference to the recent merger of their facility, Community Hospital, with a somewhat smaller rural facility located 15 miles away. At the time of the merger, Community Hospital, newly renamed the Affiliated Community Health and Education System (ACHES), acquired an organization consisting of three health centers that became satellite facilities for the system, and became affiliated with two sizeable group practices, one medical and one surgical.

Sharon continued, "And now, as I understand it, we're going to be called human resources, not personnel. Is that right?"

Don nodded. "Yep, it'll be HR from now on." He grinned and added, "We might as well call it HR. That's what every other place is doing."

"Don't get me wrong," Sharon said, "I'm not complaining. I'm really pleased with being named personnel, that is, HR director for the system. But look at what we've got to work with. There are four of us here at Community. Two people are in the department at the other hospital and one personnel person at the biggest of the satellites, with just a secretary taking care of personnel stuff at the other two satellites. Office managers at the group practices are overloaded trying to take care of personnel matters along with a dozen other concerns. And now we've got such a far-flung setup that if I were to get in my car and make a circuit of all of our facilities, I'd travel more than 60 miles. What can we do with all of this?"

Still smiling, Don said, "That's what we want to know. We want to know how to organize the new HR department to best serve the Affiliated Community Health and Education System. Every essential base has to be covered, but keep in mind that nothing is forever, given that we'll probably continue to grow and change."

"But what does the CEO want from pers . . . ah, human resources?"

Don shrugged. "In some respects your guess is as good as mine. You know how she's been about your area since she's been here. She expects us to recruit good employees for the hospital system and keep good records. Keep the system out of legal trouble, but don't make waves."

At that moment Sharon had very little idea of the direction she should recommend.

How would you respond to Don's request? How should the new HR department be organized? What issues should the HR department focus on first? What aspects may change over time? Why?

■ HUMAN RESOURCES IN THE ORGANIZATION: THE MACRO VIEW

In healthcare facilities, the individual in charge of HR usually reports to one of the organization's two top executives. The preferred reporting relationship is with the president or chief executive officer (CEO). In some health care organizations, this individual is referred to as administrator, director, or some other title. The next best choice is the executive vice president or chief operating officer (COO). This person may be known by another title such as associate administrator or assistant administrator that designates the number two executive in the organization. In many contemporary health care organizations, people heading HR departments report to the top executive. In a small facility, there may be no second level of executive management so the human resources head will be likely to report directly to the CEO.

Having HR report to a level other than executive management is inappropriate. Doing so impairs the potential effectiveness of the department. Even reporting to the second executive level, COO, or associate administrator can result in conflict with other organizational departments that report to the CEO. The chief operating officer has responsibility for all of the operating departments. This includes the majority of employees. Other staff operations, for example finance, typically report directly to the president or CEO. Instances can arise in which finance and HR are in disagreement. It can seem like HR belongs to operations alone when HR reports to the chief operating officer. In such an arrangement, HR might be incapable of fair and equitable dealings with others in the larger organization.

■ LINE AND STAFF

Two important distinctions must be made when using the terms line and staff. How do people in these different positions operate within an organization and how do they differ? Although the actual relationships may

be different, how does organizational authority, that is, the chain of command, apply to both?

Doing versus Supporting

Simply stated, the difference between line and staff in an organization is as elementary as the difference between doing and supporting. Line departments actually perform an organization's work while staff departments facilitate the work, striving to enable overall efficiency and effectiveness.

Another way to describe a line operation is to say that it advances the work of an organization. In the manufacture of a physical product, each line activity that is performed changes the physical shape or state of a product and brings it closer to completion. When a service is being provided, each activity performed advances the state of completion of the service. If a line operation is ignored or omitted, the final physical product remains incomplete or unfinished; if a service is not delivered in a satisfactory manner or if an activity that should have been performed along the way is omitted, then the service is incomplete. In the food service area of a hospital, for example, if one station on a tray assembly line is missing, then the meals that are assembled on that line will be incomplete. In another example, if a nurse neglects to administer a particular medication when scheduled, then the services delivered to the affected patient will be incomplete.

A staff operation does not advance the work of an organization or hasten its completion. Rather, it supports and enhances the work of an organization by making it possible to continue producing products or delivering services as intended. Staff positions may be removed and the productive work of an organization will usually continue, at least for a time. However, the organization is likely to become inefficient and will eventually cease working without the necessary staff support. Staff areas within a health care organization include HR, finance, housekeeping (or environmental services) and maintenance (or engineering). While none of these activities directly advances the provision of services, if they are not performed, then patient care will eventually experience both inefficiencies and losses in quality. The primary role of staff or supporting areas is to maintain an organization's service environment and capability, making it possible for line operations to continue in an optimal manner.

In most instances, it is possible to determine whether an activity is line or staff by imagining what would happen to the workflow if the activity were to cease. If an activity or position is abandoned and the workflow is immediately disrupted, then it is a line operation. If there is no apparent short-term effect on workflow, then it is a staff operation.

What happens when individuals engaged in line activities disagree about how services should be provided or supported with those who perform staff operations? If a conflict between line and staff cannot be resolved by the managers of the respective departments, then it is ordinarily referred to higher management.

The Chain of Command

The concept of line and staff can become somewhat confusing when considered in conjunction with the chain of command. In every department, whether line or staff, there is a line of authority that runs downward from the department manager. This line includes all subordinate supervisors and eventually reaches all rank-and-file employees. The line of authority is known as the chain of command. A manager of a staff activity is also a line manager, but only within that operational area. For example, the director of finance has line authority over the employees in finance, but that authority does not extend beyond the boundaries of the department. The director of finance can exercise authority within but not outside of finance. Every staff position has a limited chain of command embedded within it. The line of authority does not extend outside of the department. In line operations, the chain of command can extend through several organizational levels and include more than one department. For example, the CEO has authority over the COO who, in turn, has authority over the director of materials management who has authority over others and so on to the final link in the chain of command. The line of authority extends through all levels.

As described earlier, HR is a staff organization. The line and staff distinction is extremely important when considering where HR is located and how it operates. The manager in charge of HR has line authority only within HR. As a staff operation that provides services, HR has no authority over any employees outside of its departmental boundaries. The HR department may be an organization's expert and official voice regarding personnel policies, compensation, and benefits and many of the legalities of employment, but HR has no power of enforcement. A small minority of HR professionals object to this contention. They operate with a control model under which HR assumes some enforcement authority.

Occasionally, an operational area straddles the boundary between line and staff. An obvious example is dietary services, which has the responsibility to feed patients, administer therapeutic dietetics (both line activities), and prepare cafeteria and snack shop meals (both staff activities).

An Essential Staff Activity

Managers working in a health care organization must understand that although HR may ultimately report at or near the top of an organizational

structure, it is a staff operation. Its role is largely service and rendering advice. As such, HR has no authority over any other operational areas or departments in an organization. The HR department exists to provide advice, guidance, assistance, and whatever other services may be deemed appropriate according to the mission of the organization and the needs of other departments.

■ THE APPEARANCE OF HUMAN RESOURCES

Perceived Human Resources Models

Human resources may be viewed in a variety of ways depending on its placement in an organization's hierarchy. Relevant aspects include how it is perceived by other employees, the behavior of HR management and staff and the expectations of senior HR managers. Other influences include the traditional role of HR within an organization, the demands placed on HR by the larger organization, and the education, training, and experience of HR staff and personnel. Previous perceptions of an HR department are often viewed as models for HR service delivery. One author discussed five recognizable models of HR organization: clerical, counseling, industrial relations, control, and consulting.[1]

The Clerical Model

The clerical model represents the long-held and unflattering stereotypical view of personnel. Under this model, an HR department exists to process and file paper, maintain records, track statistics and key dates, and administer employee benefits plans. Under the clerical model, the top manager of HR is likely to be experienced as a benefits administrator or have a similar practitioner orientation. In organizations where this model still exists, HR is rarely called upon to go beyond these expectations.

The Counseling Model

This model is relatively common in hospitals and other service organizations where the total cost of employees represents a relatively large proportion of the budget, and where an organization places an emphasis on maintaining employees as effective producers. Under this model, HR is likely to act as an advocate for employees, provide a resource to managers for people problems, resolve disputes and disciplinary issues, place a high priority on preserving privacy and confidentiality, stress training and development throughout the year at all levels of an organization, lag behind the state-of-the-art in effective compensation and benefits administration, and maintain a posture that is primarily reactive.

The Industrial Relations Model

The industrial relations model typically develops in organizations in which the work force is unionized and there are periodic contract negotiations. Another aspect of this model is considerable activity having to do with grievances, arbitrations, and similar confrontations. Under this model, an HR group is likely to have its activities and procedures specified by contract and performed automatically with little innovation. Because they are directed by a contract, employees have few opportunities to display flexibility or judgment as they perform their job duties. Human resources employees are viewed as powerless within an organization's structure. Such a view is usually limited and not especially positive.

The Control Model

Infrequently encountered in American organizations, under the control model HR has substantial power. This usually stems from the charisma, personality, or individual strength of its top manager and key staff. A control-model HR department usually exerts dominance over any aspect of operations having HR implications. Consistent with this model, many managerial decisions are made only following clearance by HR personnel. Human resources staff members must be current and knowledgeable concerning applicable legal requirements and must understand policies and procedures. Other work rules must be consistently applied. Under the control model, an HR departmental executive is a key member of an organization's administrative team. With this model in place, managers of other departments may feel stifled and see the larger organization as being inflexible, bureaucratic, and rule-bound. Under the control model, employee involvement activities receive minimal if any support.

The Consulting Model

This model is ordinarily found in larger organizations. Here, HR practitioners are usually expert resources. Employees, department managers, and executive management rely upon them. The services provided by HR personnel are determined by demand. However, this is primarily a reactive model that provides effective service wherever an apparent need is identified but leaves some organizational needs either unmet or unidentified.

The foregoing models describe some dominant perceptions of HR. These models are unlikely to exist in their pure forms. Rather, most organizations feature a mix of the characteristics of two or three models. This commonly prevails because of differing philosophies introduced by a succession of HR heads. However, one particular model will usually prevail in the perceptions of employees and their department managers. Most HR professionals agree that an effective HR department is best utilized as a consultant or advisor. Ineffective HR departments are relegated to providing clerical services.

The greatest single problem with all of the foregoing models is that they are primarily reactive. All of the HR services provided by the models are needed. They should be delivered without any single model dominating or overwhelming an organization. However, managers at all organizational levels must constantly work to make HR a true strategic partner in the achievement of an organization's mission.

Alternative Human Resources Models

In the late 1980s, another approach to providing human relations services emerged. Driver, Coffey, and Bowen created alternate models based on the operational areas of an organization.[2] Organizations would, in theory, adopt the model that best reflected the most dominant aspect of their mission or core business. The next models to be described are similar to those already discussed. However, they reflect different points of view. The HR activities and services of an organization can be accurately described by using a combination of the foregoing classic models and the next revised models. The next models include approaches based on alternative clerical approaches, the law, finance, management, humanism, and behavioral science.

The Alternative Clerical Model

This is similar to the clerical model described earlier. According to this model, the primary role of HR is to acquire data, maintain records, and file required reports. Human resources personnel perform routine tasks, process paperwork, comply with regulations, provide a steady pool of prospective employees, and meet the needs of existing and retired workers. This model presents HR as passive and relatively weak.

The Legal Model

Under the legal model, an HR department derives its primary strength and reputation from its knowledge and expertise concerning legislation that affects employment. Compliance with all applicable laws is the overriding concern of all who work in such a department. Others in an organization may view HR as a bureaucracy. Occasionally, others may judge it to be intrusive, obstructive, or both. The legal model is frequently present when part of a workforce is unionized. An advantage of the legal model is its expertise and ability to negotiate contracts, monitor contract compliance, and address grievances.

The Financial Model

An HR department operating under the financial model displays maximum attention to human resource costs. Particular attention is paid to indirect compensation costs such as health and dental insurance, life insurance, retirement plans, paid time off, and other benefits offered to employees. Successful human resource practitioners working under this model are fre-

quently well versed in matters of finance. A potential hazard of this model is placing financial matters above all other employee relations issues.

The Managerial Model

Under a managerial model, HR personnel often work within the same bottom-line productivity oriented framework as do most line managers. They share the same goals and values as line managers and make decisions in accordance with organizational managerial objectives. This model lends itself to decentralization of HR activities and services, under which line managers perform many of the tasks typically reserved for HR personnel. This model sometimes results in inconsistency in the application of HR practices because of having organizational guidelines interpreted by so many different persons. A potential drawback of the managerial model is that an organization may end up having no particular strategic outlook or involvement in long-range planning.

The Humanistic Model

The central tenet of the humanistic model of HR is that it exists primarily to foster human values and potential within an organization. Individual employees are the primary focus of HR practitioners. Individual development and career planning are emphasized. The model assumes that enhancing the working life of each individual enhances the overall effectiveness of an organization. Experts claim that the rising level of education and the general sophistication of employees and their expectations of a high-quality work experience provide support for this model.

The Behavioral Science Model

The behavioral science model assumes that disciplines such as psychology, social psychology, sociology, and organizational behavior provide the foundation for most HR activities. This model is frequently used when designing performance appraisal systems, job evaluation classifications, reward and incentive programs, employee development plans, and employee interest and attitude surveys. Increasing sophistication of both managers and employees provides some support for this approach.

As with the first set of models introduced, the alternative HR models are unlikely to be found as pure types. For example, many managers continue to assume that HR provides clerical services. Despite how modern and sophisticated HR becomes, organizations will continue to maintain a significant number of records. Unless there is a marked change or reversal in the amount of legislation impacting employment, the legal model will appear to prevail. Nevertheless, for many HR departments, one or two particular models will predominate, or at least seem to according to the perceptions of line managers and rank-and-file employees.

■ THE HUMAN RESOURCES INTERNAL ORGANIZATION

An HR department will customarily be organized according to an organization's expectations, reflecting the prevailing goals and structure of the organization that it serves. Smaller organizations typically employ HR generalists. This is typically made necessary by staffing limitations. The requirements of a small organization can usually be satisfied by a single person sometimes working less than full time. Larger organizations employ a mix of specialists and generalists. Their requirements cannot be met by a single person and they have the resources to employ several individuals. In larger health care organizations, specialists are most often used. They are listed in descending order of the frequency with which they are most likely to be encountered.

1. Employment
2. Compensation and benefits
3. Employee relations
4. Training and development
5. Labor relations
6. Equal Employment Opportunity (EEO)
7. Security
8. Safety

The individuals or customers served by an HR department vary. Internal customers include all existing or former employees at all organizational levels. External customers include potential employees or applicants for employment.

■ HUMAN RESOURCES AND SENIOR MANAGEMENT

The attitude of an organization's CEO toward HR usually sets the tone for the rest of the organization. Tone includes attributes such as the relative standing of an HR department within the larger organization and the respect that is accorded to HR by others throughout an organization. Translated, tone determines how much power or influence an HR department will be able to exercise. Human resources departments that have power or influence are respected and vice versa. Respect leads to involvement and interdependence throughout an organization. The respect is fundamentally based on the expectations of the CEO.

What CEOs Expect from Human Resources

Chief executive officers have some common expectations of HR departments. Most want their HR department to supervise recruitment, admin-

ister compensation and benefits programs, and maintain personnel records. These are the activities that HR experts include as the minimum or basics of the profession. While many other activities can be assumed or provided by an HR department, some senior managers demand only the basics.

A considerable number of CEOs expect their HR departments to provide advice and counsel on employee matters. Many expect the head of HR to serve as a personal advisor for personnel issues. In unionized working environments, CEOs may expect someone in HR to monitor activities related to labor relations.

Occasionally, a CEO wants to have an HR department that provides the basic services but does so in an unobtrusive manner. In other words, such an HR department should not make waves. It should be seen but not heard. In reality, this is a difficult assignment. Human resources is expected to meet basic personnel expectations in a competent and professional manner but must not become advocates for innovation or positive changes. The CEOs making such demands on an HR department often have large or oversized egos.

Many CEOs say that they want a truly professional and innovative HR department. However, those that mouth the words are more numerous than individuals who truly desire, appreciate, and utilize competent and professional HR services and advice.

The personal and organizational priorities of CEOs influence their expectations of an HR department. If senior managers are content with simply maintaining the *status quo*, then few changes are likely to emerge from HR. Such executives are not oriented to the future or instituting changes. They usually overlook HR's potential value in business and strategic planning, personnel and career path development, and the development of different or innovative HR strategies.

Some management experts have observed that HR-related tasks have dramatically expanded over the last four decades. Most of these additional requirements have been mandated by legislation that began with the Equal Employment Opportunity Act of 1972. Human resources departments have become much larger as they attempted to keep pace with legal demands, to create and update necessary systems, and to add and expand services. Because of this reactive posture, the discipline of HR has missed an opportunity to become more of a full partner in organizational management. Many critical observers have wondered whether HR is a full planner and decision-maker or simply a firefighting activity.

This distinction is related to the attitudes of senior management. Human resources becomes a more integral and important member of a management team to the extent that senior managers regard an HR department as a professional specialty. Furthermore, they ensure that HR is staffed and led by competent people who have been appropriately educated and

trained. They provide support for an HR department in an open and continuous manner.

How does a department whose responsibilities are continually changing and evolving remain current? Further complicating this question is the widely held perception that HR is an entity to be tolerated rather than embraced because it does not generate a profit. Many managers are surprised at the level of expertise displayed by HR personnel. Expressed differently, how does an HR department become a strategic organizational partner with its leader a full-fledged member of senior management? The field of HR has been wrestling with this question for three decades without reaching any satisfactory conclusions. It has gained status in some health care organizations, but in many, it has yet to become a reality.

■ THE RELATIONSHIP BETWEEN HUMAN RESOURCES AND OTHER DEPARTMENTS

From the perspective of departmental personnel, HR has traditionally been viewed as more administrative than advisory, more as an enforcer of policies than policy makers. Many individuals throughout almost every organization regard HR as a group of paper pushers. It acquired this sobriquet by virtue of its employment-related activities. Recent governmental reporting requirements have reinforced this perception. In short, in the minds of many people, HR merely hires people and files papers.

The proliferation of laws and regulations governing almost all aspects of employment relationships has been a major factor in the changing role and relative organizational position of an HR department. However, organizational managers outside of the HR department often cannot see or appreciate the legal and regulatory obstacles that must be avoided. Rather, they see only the portion of HR that applies to their own departments. Furthermore, they often lack the perspective to appreciate why HR makes the demands that it imposes on other organizational units. For many, HR appears to be a rule-bound, bureaucratic group that, in their opinions, is trying to prevent them from undertaking tasks that they feel are necessary. Even persons who have a partial appreciation of the regulatory environment in which HR must operate often come to view HR as little more than a necessary evil.

Many of the prevailing views or, more accurately, stereotypes, of an HR department prevent managers from seeking appropriate counsel or assistance until their needs or problems have become critical. The time to call upon experts from HR for assistance is when the earliest signs of a problem appear. When personnel-related issues involve discipline or legal action, many opportunities for intervention have already been lost. Full-blown

problems can be resolved, but the cost is usually far greater than it could have been if advice had been sought at an earlier juncture.

If an HR department exists to serve an organization, then why is it still often viewed as an obstacle? Resistance sometimes emerges as a result of a particular department's approach or the attitude of its practitioners. When individuals in an organization perceive a group as a miniature bureaucracy, the reasons for the perception can usually be found in the behavior of the HR staff. In addition, the reasons why persons in an HR department may offer recommendations that are contrary to the expectations of department managers are not clearly communicated. Consider the following example.

A department manager has had a key position open for several weeks and the lack of a person to fill the position is impacting the department's output. It is affecting other staff members who have been obliged to cover the vacancy through mandatory overtime. An ideal candidate appears, is referred to the manager by HR, is interviewed, and is immediately offered the position. This ideal candidate accepts and indicates an ability to begin work at any time. The manager responds to HR by saying, "I want this person to start work tomorrow."

However, protocols used by HR call for a delay. The recruiter in HR responds to the departmental manager by saying, "We must have time to check references and properly clear this candidate. Even on a fast track, the earliest starting date we can give you is in a week." Although the manager understands that proper clearance means concluding reference checks and completing a pre-employment physical examination, the manager insists on a next-day start and says, "The reference checks and the physical can be concluded next week. In the meantime, we can get a start on attacking the backlog of work that has accumulated."

Because HR refuses to authorize the immediate start, the department manager proceeds to complain about HR's inflexibility and unwillingness to cooperate to other peer and senior-level managers. The involved HR representative stands firm, without appreciating the fact that the complaining department manager may not be aware that regulations (at least in some states) legally prohibit a new employee from starting work in a health care position before being medically cleared, or that the organization, reinforced by personnel policy, has an obligation to make a good-faith effort to check references before accepting an individual as an employee.

In this example the HR representative is bound by state regulation and corporate personnel policy. If this is not fully understood by the other department manager, then HR's opposition will appear as arbitrary resistance. It does little good for personnel from the HR department to simply cite organizational policies and regulations to a manager. Such an approach, coming from HR, usually sounds like more HR rules and generates division. Education of line managers concerning existing legal and

regulatory restrictions that affect aspects of an employment relationship and have an impact on their activities is required.

When interacting with HR, it is helpful to remember that HR does not command. Rather, it merely advises or makes recommendations. However, as in the previous example, the department has the responsibility not only to make a recommendation in favor or against a specific action but also to advise others of the possible consequences of the proposed action.

Human resources does not issue commands. An HR department manager should never expect to issue mandates and should avoid allowing HR to command by default. "This was really personnel's decision," or, "HR made me do it," are two laments commonly heard by executives or senior level managers when lower level supervisors are unhappy with a recommendation made by HR. These defenses can transform an HR recommendation into an HR command. Human resources managers must explain the reasons for their recommendations and be sure that they are clearly understood. Human resources is purely a staff activity that operates by advising, counseling, suggesting, recommending, and occasionally by negotiating, persuading, or convincing. It should never issue commands.

■ HEALTH CARE HUMAN RESOURCES AND THE CHANGING SCENE

As with any other organizational activity, HR must adapt to a frequently changing environment. Changes external to the health care industry and changes within the industry itself affect the ways that health care is being delivered. In turn, these affect how the services of HR are provided. Three kinds of changes are faced by a modern health care organization: technological, financial, and social. Not only are the three interrelated, but also these major areas of change have resulted in many specific changes in the ways in which health care is organized and delivered.

Technological change encompasses advances being made in methods of diagnosis and treatment, including all new or improved equipment, new procedures, and new or improved drugs. In short, this encompasses most advances made in any dimension of restoring health and preserving life. But technological changes collide with considerations of finance because the cost of having the benefits of the latest and best equipment and the information that it can produce conflict with the pressures experienced to stem the rapid increase of health care costs. Social change becomes a strong influence as the population ages and society experiences the changing attitudes of contemporary generations.

The three major categories of change mutually affect each other. The results of this interplay can be seen in a number of changing forces within the health care industry. Financial pressure increases as revenues are con-

strained from growing in a manner that is consistent with actual cost increases. In some instances, available funding is being reduced. Competition is increasing as elements of a shrinking hospital system struggle to acquire or retain a share of the available business in a particular area.

There is a growing emphasis on outpatient care. Technological advances and financial pressures are continually conspiring to transfer more modes of treatment to outpatient settings. Free-standing specialty centers that perform some of the same services provided by hospital departments are proliferating. Corporate restructuring is occurring as provider organizations consummate mergers or other affiliations and form ever-larger health systems.

Turnover rates among health care executives are increasing. Some organizations are folding under mounting pressures while others are discovering that mergers result in fewer executive positions. Medical entrepreneurship is increasing as individual providers establish specialties or attempt to tap specific market segments. Emphasis on productivity is growing, and getting more output from the same or less input becomes necessary as financial constraints and other shortages occur.

Chronic shortages of critical care-giving staff are occurring as occupational and professional groups react to the combination of financial pressures that restrict earning potential and the stresses of working under increasing demands while short of critical staff. An increasingly better educated and more sophisticated workforce of employees is finding that they are less likely than members of earlier generations to accept what they are offered without expressing what they want.

Change within a health care organization or in any enterprise occurs in one of two ways. Change is either intentional, being planned and executed for some specific purpose, or it is forced, coming about in response to circumstances beyond the control of an organization. Healthcare organizations, especially hospitals, experience far more reactionary changes than planned changes.

Several reasons contribute to these developments. Change is difficult to promote unless it is driven by a crisis. Few organizations engage in planning that creates change. Because of workload and other continuing problems, top managers have little time to focus on change. Resistance to change is often prevalent throughout many organizations. Middle managers and department managers do not view themselves as agents of change. Finally, few managers are skilled or effective at creating and managing change.

Experts often suggest that managers at all levels should be agents of change. In HR departments, fostering a climate that is conducive to constructive change is especially important. This belief should be communicated in all of HR's interactions with organizational managers and employees. Contemporary health care organizations benefit from a culture of change that encourages innovation, rewards risk taking, and values employee

participation and input. Human resources can best communicate its belief in a change process by implementing up-to-date policies and procedures that convey respect for the capabilities of every employee.

Job descriptions should be flexible and should allow room for innovation and employee participation and input. A modern performance appraisal process that permits employees to set objectives for themselves and participate in their own growth and development fosters change. Opportunities for promotion and transfer from within reinforce employees' personal growth and development. A compensation structure that includes the opportunity to influence earnings through performance and a flexible benefits structure that recognizes the divergence of individual needs also supports change.

Given its unique relationship with all line and staff operations and its mission to provide service for all employees, an HR department is ideally positioned to be a health care organization's primary driver of internal change. Whether it is used as such is up to executive management and HR's leadership.

■ HUMAN RESOURCES REENGINEERED

A Process by Any Other Name

Reengineering is intended to make work processes easier and more productive. Reengineering, a term used to describe many improvement-oriented activities, is far more complex than many people realize. The term literally means engineered again. It involves addressing something that is presently being done and redesigning a process so that a different objective related to the same result is achieved, for example, savings in time or labor or direct savings in money. Practically, this may be a reduction in materials or supplies consumed or an improvement in quality without an increase in cost. As applied to an entire organization or significant subunit, reengineering is the systematic redesign of a business's core processes, starting with desired outcomes and then establishing the most efficient possible processes to achieve those outcomes.

At the heart of traditional methods-improvement or problem-solving processes is the way that something is presently being done. These processes begin with the present method and look for ways to eliminate steps or make improvements. By contrast, reengineering ignores how something is presently done and focuses only on desired outcomes. Abandoning a familiar routine is difficult. Overcoming the comfort of familiarity is the challenge of reengineering.

Reengineering is a business term that has replaced a number of other buzz words. These include reorganizing, downsizing, repositioning, right-

sizing, revitalizing, and modernizing. The term reengineering has evolved as the intent has gradually clarified. It is now the preferred term because it connotes more of a focus on process and thus less of a focus on people. Despite this meaning, an announcement of impending reengineering has come to be synonymous with the likely loss of jobs.

Human Resources Meets Reengineering

As organizations change, the need to improve services and reduce costs is the driving force behind most reengineering efforts. Reengineering consistently results in reductions of staff. Many instances of reengineering have been undertaken specifically to reduce the cost of services by reducing staff. Human resources is so labor intensive that, with the exception of reducing employee benefits, there is no way to achieve significant cost savings other than reducing staff. As a consequence, HR is often unaffected by staff reductions driven by reengineering programs.

Effects on Human Resources Staffing

Human resources staffing ratios in different areas of organizational activity vary. Health care organizations have approximately half of the number of staff persons per 1000 employees compared to HR departments in industries such as manufacturing or finance. Human resources departments in contemporary health care organizations have approximately one staff member for every 100 to 150 total employees.

The Flatter Organization

Organizational flattening, the elimination of layers of management such that the institution's organization chart becomes flatter, often accompanies reengineering. As many managers have discovered, when an organization is flattened, middle managers are often eliminated. The responsibilities of remaining managers, usually first-line supervisors, are increased.

A typical HR department, even in a mid- to large-size health care organization, has only three layers. The middle layer, usually comprised of specialist-managers for activities such as employment or compensation and benefits, may vanish, leaving only HR staff and a departmental supervisor. When this occurs, an organization's department managers must then relate directly with several staff-level individuals rather than with two or three specialist-managers.

Centralization versus Decentralization

Reengineering can lead to changes in an organization's degree of centralization as it seeks more cost-effective ways of getting its work done. Decentralization is a more common outcome of reengineering than is

centralization. Whichever outcome occurs affects not only HR personnel and how they do their jobs, but also department managers.

When its activities are decentralized, individual managers must be more aware of HR concerns because decisions must be made closer to an organization's lowest levels. For example, if some aspects of employment are decentralized, then a department manager may then have to screen incoming applications and decide which applicants have the qualifications for a particular open position, which is something HR would have done before decentralization.

Some forms of technology, for example computerized telephone systems, have led to the centralization of question-and-answer protocols and other systems for geographically scattered organizations. When using newer communication systems, employees at multiple locations have been able to transact business about their benefits without having to travel to an HR office. In turn, this can enable an organization to maintain a smaller HR presence at satellite locations while handling all business centrally. For widely dispersed organizations, toll-free numbers for employees who have benefits questions provide an effective and financially viable partial replacement of HR staff with technology.

Outsourcing

Outsourcing is defined as having an external vendor provide, on a continuing basis, a service that would normally be provided within an organization.[4] Although outsourcing is frequently linked to staff reduction in HR departments, budget cuts and staff reductions are not always the leading reasons for outsourcing. Exhibit 2-1 lists common reasons for outsourcing in approximate order of their frequency of occurrence.

Exhibit 2-1   Order of Importance of Commonly Cited Reasons for Outsourcing Selected Human Resource Services (From most to least frequently cited)

- Use the expertise of specialists (for example payroll, pension plan administration and Workers' Compensation administration)
- Conserve staff time when addressing required tasks
- Reduce administrative costs
- Allow staff to focus on needs more relevant to an organization's purposes
- Compensate for overload caused by increasing responsibilities
- Reduce human resources staff
- Make organizational and departmental budget cuts

Exhibit 2-2 Human Resources Activities Frequently Subject to Outsourcing

- Payroll. Payroll is often a responsibility of the finance department. Payroll input often flows through HR. Where payroll is processed has an effect on HR staff.
- Outplacement services. This is outsourced because it is intermittently or infrequently needed.
- Employee assistance program administration. This is outsourced to maintain confidentiality for employees.
- Employee training and development. Many organizations contract with training specialists or consultants for services because they are intermittently needed.
- Relocation services. This is outsourced because the need for it is intermittent or infrequent.
- Benefits administration. Many benefit programs are internally administered. Pension plans and self-funded insurance programs such as dental and short-term disability are often administered by external trustees.
- Compensation planning and administration. This is occasionally outsourced, especially when executive incentive compensation plans are involved.
- Recruitment and staffing. Some elements are outsourced. Organizations experiencing rapid expansion or adding a significant service may outsource application and resume screening and initial interviews.
- Candidate background checks. Very few health care organizations attempt to perform their own background checks. This activity is nearly always outsourced.
- Safety and security. Few organizations entirely outsource these activities. Most organizations contract with specialists to supply such services.

Cutbacks related to economic pressures and reengineering have created opportunities for companies that specialize in HR services. Exhibit 2-2 lists a number of activities that are commonly outsourced and the reasons for so doing.

Payroll is the most commonly outsourced activity, although it is now normally based in the finance department. Payroll processing requires considerable detailed knowledge of the details of the Fair Labor Standards Act and related regulations that affect payroll deductions and other aspects of

payment. Firms that specialize in payroll have created automated systems that fully account for all of the detailed requirements of wage payment. Users submit input information. The payroll service creates paychecks or direct deposits and generates all necessary records. This particular form of outsourcing has eliminated a great deal of frustration for businesses. It is usually less expensive than an internal payroll operation. Because many smaller health care organizations have small payrolls, purchasing an automated payroll system is cost efficient.

Some of the downsizing of HR operations has resulted in outsourcing to save money. In 1999, 58% of all companies were outsourcing at least one HR activity. In 2002, this number had increased to 74%.[5]

Many small facilities lacking the resources to employ adequate full-time HR staff rely heavily on outsourcing, particularly on firms known as professional employer organizations (PEO). A PEO takes over and provides all HR services. When an organization or business contracts with a PEO, its employees become co-employees of the PEO. A PEO charges a percentage of payroll, typically 2–4%, for its services. These ordinarily include benefits administration as well as payroll. In one instance, by contracting with a PEO, a small health care provider organization reduced its costs of personnel administration from 9% of payroll to 3%.[6]

Reengineering aside, HR departments have outsourced activities because doing so often makes economic sense. Activities such as administering a self-funded health insurance or disability program or coordinating an employee assistance program are frequently provided by non-organization employees for reasons of confidentiality. This prevents the company from having to reveal employees' personal and medical information to the persons administering the programs.

Additional outsourcing of HR activities is often one of the results of reengineering. As HR staff members are eliminated, adjustments are made in the HR workload. However, essential tasks that remain may occur so infrequently that it is inefficient to retain and pay staff to perform them. Almost any HR operation can be a candidate for outsourcing. Commonly outsourced HR activities include payroll, insurance claim processing, EAP administration, retirement and savings plan administration, employee education, and employment candidate background checks.

Effects on Corporate Culture

Corporate culture is comprised of the shared basic assumptions and beliefs developed by an organization over time. It requires time for an organization's culture to develop to the extent that those entering can tell the kind of organization they have entered in a relatively short time.

It also takes time for an organization's culture to mature and to adapt to change. Time is required for an organization's culture to adapt to change.

Reengineering is inevitably accompanied by change. In order for an organization's culture to successfully absorb and accommodate, change should occur in increments that can be absorbed without trauma. The pace of change should allow full assimilation of one significant modification before another is introduced. In many health care organizations, the pace of change has been so rapid that the corporate culture has had no opportunity to reach a new equilibrium before once again being thrown off balance.

Reengineering inevitably introduces turmoil into an organizational culture. Mergers; acquisition and other forms of re-affiliation; downsizing, rightsizing, and other forms of reorganization; increasing external regulation; and all forms of cost-cutting involve organizational turmoil.

■ CONCLUSION

To ensure maximum effectiveness in all organizational relationships, the individual in charge of HR should report to the CEO. Line and staff tasks are different. Line and staff employees perform different tasks for an organization. Line operations advance the work of an organization. Staff operations support and enhance the work of an organization by making it possible to continue producing products or delivering services as intended.

A variety of organizational paradigms are used in HR departments. These include organizational models based on clerical tasks, counseling, industrial relations, control, and consulting. Alternative models are recognized by some HR professionals.

The degree of effectiveness for HR depends on the attitude of a CEO towards HR. Human resources does not issue commands. It is vulnerable to changes because of reengineering. Outsourcing HR services is relatively common.

Returning to the opening case study, Sharon, the HR director for the newly designated health system, reports to the COO. This is the second best of the two acceptable reporting relationships for HR. Her organizational standing is compromised from the outset.

Sharon was wise enough to realize that she could not immediately establish the kind of HR department that she would like to have. Despite a change in name, the CEO still thinks of HR as personnel. Uniting all of the scattered elements of personnel into an HR department to serve the new health system's needs was a significant challenge. Her present HR structure, a combination of the clerical and counseling models, would have to prevail until she could get HR properly organized and transform it into a full-fledged business partner. She realized that this might not occur until the current CEO left.

Sharon's initial recommendations included opting for partial decentralization of some HR activities, with the senior person at the smaller

hospital, a single HR person at the largest satellite, and the office managers at the other satellites and the group practices handling local matters. These included making changes to the employee information and benefits data bases and addressing employee matters as they arose. In addition, they would serve as channels for policy interpretation.

Sharon decided to keep recruiting centralized, primarily to maintain consistency in such matters as formulating salary offers, explaining benefits, checking references, and initiating background checks. She was concerned about organizational consistency in pre-employment activities. She opted to maintain all personnel files centrally, but created a procedure to ensure quick access by managers at any location when necessary. Finally, she established a help-line for employees to call at any time. Through this service, employees could learn where and how they might access HR or benefit information or secure assistance in addressing problems related to benefits.

Sharon realized that she would have to provide direct support to her HR staff by visiting the satellite facilities in person. She planned to ensure that all of her HR managers were trained. She would send them to local colleges or universities for instruction by HR experts. Supervisors having the least HR experience would be the first to receive training. Sharon established a personal goal to make HR activities as easy as she could for the managers who had only a part-time involvement in HR matters.

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Discussion Points

1. Describe a specific outsourcing practice about which you are knowledgeable, and explain what you believe are the primary benefits achieved by having the services provided by outside persons rather than keeping them within an organization.

2. Why do experts contend that a primary characteristic of line personnel is present within a clearly defined staff activity such as HR or Finance?

3. What is the fundamental difference between a line activity and a staff activity? Provide two examples of each in a health care setting.

4. What problems develop when the head of HR reports to any executive other than the chief executive officer?

5. Under what organizational circumstances could the following models of HR be successful in a health care organization: Clerical Model, Control Model, Industrial Relations Model, Legal Model, Consulting Model, and Financial Model?

6. Which of the HR models appears most appropriate for managing personnel in a health care organization? Why?

7. Describe how an HR department in a health care organization might evolve through different organizational models as a department grows and matures.

8. How do the expectations of an organization's CEO shape the model or manner in which HR services are delivered?

9. What are the primary areas of conflict between HR and department managers? How might these conflicts be reconciled?

10. What are the advantages of a decentralized organization for delivering HR services? What are the risks?

11. What is organizational flattening? Why is it practiced?

12. What are the primary shortcomings of reengineering as it is practiced in contemporary health care organizations? How does reengineering differ from minor modification of existing practices?

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