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# The Benefits of Human Resource Centralization: Insights from a Survey of Human Resource Directors in a Decentralized State

*Texas is unique among American state governments in its approach to human resources because it has no central human resource (HR) or personnel office and no comprehensive set of centrally prescribed HR policies and procedures. Given contemporary calls for HR decentralization, Texas is an excellent case study of the practical implications of a decentralized approach to HR. This article examines findings from a survey of state agency HR directors. The results suggest that respondents do not see the putative benefits of a centralized HR model. However, respondents from small state agencies, those who perceive they do not have requisite HR expertise, and those with lower levels of educational attainment hold significantly different opinions about the benefits of centralized HR.*

If one word sums up the overall focus of the [human resources] reform agenda, that word is decentralization.

—Shafritz and Russell (2000, 382)

## Introduction

Administrative reform is a recurring feature of public administration in the United States. The ongoing quest for “better government” has witnessed the appearance—and often the subsequent disappearance—of reforms such as management by objectives, total quality management, process reengineering, reinventing government, and, more recently, New Public Management. These manifestations of administrative reform are part and parcel of larger administrative reform movements that, according to their place and time, stress efficiency, economy, fairness, or higher performance. Moreover, evidence suggests the pace of these “tides of reform” has only accelerated in recent years (Light 1998).

Nowhere, perhaps, has the force of administrative reform been felt more than in human resources (HR). Reformers have identified HR as a key ingredient in the better-government recipe because of its inextricable link with government performance. If governments cannot recruit and hire talented individuals at the right place (where they are needed) and at the right time (when they are needed),

and if they cannot motivate, develop, and retain those individuals, then the performance of government will suffer. And, if a host of academics and blue-ribbon reform commissions are to be believed, the rigidity, complexity, and control orientation of government’s traditional, centralized HR systems have, indeed, undermined government performance (Campbell 1978; DiIulio, Garvey, and Kettl 1993; Kettl et al. 1996; National Commission on the Public Service 1989; National Commission on State and Local Public Service 1993; Savas and Ginsburg 1973). Thus, it is not surprising that HR reform is often the centerpiece of contemporary administrative reform efforts (Hays, forthcoming; Kellough and Selden 2003).

As the epigraph suggests, decentralization is the linchpin of current HR reform efforts (Hays 2001). While decentralization is by no means a new idea, the calls for its adoption have been more resounding in recent years (Kellough and Selden 2003). HR decentralization has moved from the realm of rhetoric to concrete administrative action: Evidence of HR decentralization abounds at all levels of government (Ban 1999; Coggburn 2001; Donahue, Selden, and Ingraham 2000; Ingraham and Selden 2002;

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Kellough and Selden 2003; Selden, Ingraham, and Jacobson 2001). Given this undeniable momentum and the “penetrating changes” that are occurring in public HR (Selden, Ingraham, and Jacobson 2001), now marks a propitious time to step back and ask some hard questions about HR decentralization.

This article stands the decentralization argument on its head by looking at the desirability of HR *centralization*. Such an approach is made possible by the focus of this analysis: the state of Texas’s HR function. Unlike states that are considering or have recently adopted reforms to decentralize HR, Texas has never had a statewide office of human resources or personnel department.<sup>1</sup> Instead, individual state agencies are free, for the most part, to design and implement their own HR programs, policies, and procedures. Thus, the decentralized HR reform model that is so widely advocated is very nearly approximated in Texas. Therefore, Texas provides a unique case study for examining the HR centralization/decentralization debate.

The article is arranged into four sections. The first section highlights the HR centralization/decentralization debate by discussing the positives and negatives of each approach. The second section briefly describes the state of Texas’s HR function. Next, the article presents and analyzes survey data gathered from state agency HR directors. In the aggregate, the findings suggest there is little support for HR centralization among the state’s HR directors; however, further analysis reveals that respondents’ demographic characteristics significantly influence their opinions about the suggested outcomes of HR centralization. Finally, the conclusion discusses the implications of the findings for the field of public HR.

## The HR Centralization/Decentralization Debate

Administrative reform often appears to be cyclical (Kaufman 1956, 1969): Jurisdictions adopt reforms that are designed to address a particular set of problems, only to see a new set of problems emerge. The new problems, paradoxically, are often best addressed by the old way of doing things (that is, before the reform). When this occurs, administrative arrangements can swing from centralization to decentralization, from regulation to deregulation, and so on. The cyclical nature of centralization and decentralization in administrative reform is nicely captured by Barrett and Greene who, fantasizing about their strategy as would-be government consultants, quip, “If we’re hired by a city or state that gives little power and authority to agencies, we write a 30-page report telling them to decentralize. And if we work for a government that is very decentralized, we write a 30-page report telling them to centralize” (2000, 76).

The point is that any administrative approach is going to produce consequences: Some will be desirable, others will not. When the consequences fall into the latter category, attention naturally turns to strategies to ameliorate the negative effects. Given that public HR traditionally has been a centralized function emphasizing control, the crosshairs of today’s reformers are focused on the negatives associated with HR centralization. Before discussing those negatives, however, it is important to bear in mind the rationale for adopting the centralized approach in the first place.

Centralized approaches, which originated in the United States in the late nineteenth century and flourished throughout the twentieth century, have certain advantages. Primarily, centralized HR systems—usually labeled “civil service systems” or “merit systems”—were put in place to combat the inequities and corruption associated with political patronage. By centralizing HR and practicing politically neutral HR decision making, government’s traditional approach to HR offers employees greater protection against political coercion. Moreover, the standardization of HR practices promotes a more equitable treatment of employees (for instance, equal pay for equal work) and consistency in HR service delivery (Ingraham and Selden 2002; Selden, Ingraham, and Jacobson 2001).

Centralized approaches also seek to maximize instrumental values. For example, having a central human resources office that promulgates and enforces standard policies and procedures offers efficiency gains through economies of scale. Similarly, centralized systems are more effective, in theory, because qualified HR experts are in charge of tasks such as reviewing and ranking job candidates. The positive result should be that the most qualified applicants are hired. As this suggests, there *are* compelling reasons for centralizing HR, but experience has shown the approach to be problematic.

In practice, centralized HR systems present a host of challenges and complaints. For example, centralized systems are routinely derided for their rigidity, complexity, slowness, and unresponsiveness. Managers operating in centralized HR settings often feel the human resources office is more concerned about enforcing rules than responding to their specific HR needs. They feel hamstrung by rigid classification systems that make it difficult to match employees with changing job requirements and by compensation rules that make it difficult to reward performance. Similarly, central HR processes are lambasted for their ineffectual and time-consuming nature: By the time the central office gets around to making employment offers, the best-qualified candidates have often accepted other positions (Kettl et al. 1996; Osborne and Gaebler 1992; Savas and Ginsburg 1973). Critics also contend that centrally prescribed grievance and appeals processes make disciplin-

ing and firing problem employees next to impossible. For these reasons, there now appears to be a consensus that the traditional, centralized public HR model is seriously outdated (Hays 2001).

As we might expect, the negatives of centralized HR provide fodder for those who are hungry for HR reform. Their preferred remedy, not surprisingly, is HR decentralization. When HR is decentralized, managers and HR professionals in line agencies gain considerable discretion and autonomy over HR functions such as recruitment, hiring, position classification, compensation, performance evaluation, and discipline. The expectation is that managers will use this discretion to enhance the effectiveness and productivity of their agencies (Ingraham 1996). Decentralized HR processes are more efficient, the argument goes, because managers can reach decisions (on hiring, promotions, etc.) quicker, with less red tape, and with fewer levels of clearance (Ban 1995). Decentralized HR is more effective and responsive because it affords managers the ability to tailor their HR programs to meet the agency's specific needs. Such flexibility has been depicted as an integral component of "strategic HR" (Perry and Mesch 1997).

To see the dominance of decentralization as a contemporary organizing principle for public HR, one need look no further than the normative HR model developed by researchers at Syracuse University's Alan K. Campbell Institute of Public Affairs as a part of the widely publicized Government Performance Project. Indeed, it is telling when researchers affiliated with one of the most highly ranked U.S. public affairs schools endorse decentralization as a principle that governments ought to follow in designing (or *redesigning*) their HR systems (Donahue, Selden, and Ingraham 2000; Ingraham and Donahue 2000; Selden, Ingraham, and Jacobson 2001).

Decentralization has potential downsides. For example, decentralized HR systems are more prone to political abuse than centralized systems, especially when decentralization is accompanied by HR deregulation (Thompson 1994). Equity and consistency in HR decision making, hallmarks of traditional HR, may be compromised in decentralized systems (Kellough 1998; Peters and Savoie 1996). Perhaps more troubling are the assumptions that underlie a shift toward decentralization. For instance, when decentralization occurs the office of human resources is typically called upon to shift from its customary control orientation to a new consultant or adviser orientation. The difficulty is that the office's functional specialists (compensation specialists, staffing specialists, etc.) may or may not have the *general* HR knowledge required to succeed in their new roles. Similarly, decentralization assumes that line agencies will have requisite HR capacity to undertake their new responsibilities. Empirical evidence to support either assumption is lacking.

In sum, the centralization/decentralization debate is ongoing. Both approaches to HR carry potential risks and benefits. Currently, however, arguments for HR decentralization are carrying the day. Governments across the country are adopting reforms that are dramatically decentralizing HR. Given this reality, it is important to carefully consider the relative advantages and disadvantages of HR decentralization. Using the state of Texas as a case study, the remainder of this article attempts to do precisely that.

## HR in Texas State Government<sup>2</sup>

What makes Texas suitable for a case study of HR decentralization? The answer, quite simply, is that the HR function in Texas state government is—and always has been—almost entirely decentralized to state agencies (Coggburn, forthcoming; Ingraham and Selden 2002; Selden, Ingraham, and Jacobson 2001; Walters 2002). There is no statewide human resources office in Texas, nor is there a comprehensive set of HR policies and procedures that applies to all state agencies. Instead, individual state agencies enjoy considerable discretion to design and implement their own HR programs. This decentralization makes Texas unique among the states. As Ingraham and Selden (2002) put it, if the states were arrayed on a continuum from traditional, centralized HR systems to very decentralized HR systems, Texas would stand alone at the decentralization end of the continuum. This characterization is corroborated empirically by Kellough and Selden (2003), who give Texas the highest score on their state HR decentralization index.

While there is little doubt that Texas has the most decentralized HR system among the states, it is important to point out the limits on agency discretion and the few centralized HR aspects that exist in the state. First, there are two major limitations on agencies' HR discretion: (1) agencies must adhere to all statewide HR laws passed by the state legislature and the applicable federal employment law, and (2) agencies that are required to develop merit systems as a condition of receiving federal aid must do so individually (Coggburn, forthcoming). Second, there are several agencies that provide certain HR functions statewide. For example, the Texas Commission on Human Rights investigates all state employees' discrimination complaints and audits agencies' HR practices to ensure compliance with federal and state employment discrimination laws. The Texas Workforce Commission maintains a state jobs Web site that agencies are required to use (of course, they can also use whatever other modes of recruitment they deem appropriate). Finally, the State Classification Office, a component of the State Auditor's Office in the legislative branch, conducts post audits to ensure that agencies are properly classifying their positions. Still, it is up to the

individual agencies to use the state's classification system as they see fit.

Even with these caveats, it is still true that HR in Texas is decentralized to an unparalleled degree among the states. As this suggests, Texas represents the future of public HR, at least as it is envisioned by many contemporary HR reform advocates. Therefore, the state represents a perfect case study for understanding the implications of HR decentralization.

## Data and Analysis

Data were obtained from a mail survey of HR directors in Texas state government. Because HR is decentralized in Texas, agency HR directors play a critical role in day-to-day HR operations: They possess intimate knowledge of how the HR function is administered and the advantages and disadvantages of the state's approach to HR. The stature and responsibility of the HR directors may predispose them to have negative views of HR centralization: Creating a central human resources office would, by design, erode their role in state government. Therefore, any agreement among respondents about the benefits of creating a central HR office can be taken as a significant finding. The survey was administered by the author in May and June of 2002. Surveys were mailed in two waves to 135 HR directors, whose names and addresses were obtained from the State Classification Office. Completed surveys were returned by 101 HR directors, for an overall response rate of approximately 75 percent.

In the portion of the survey that is relevant to the present research, respondents were asked to indicate their level of agreement or disagreement with seven statements directly related to HR centralization.<sup>3</sup> These seven items were introduced with the statement, "Creating a central state HR office would ...," and were followed by specific statements related to the possible consequences of creating such an office. These statements were written to reflect arguments from the HR centralization/decentralization debate as is presented in the literature. The precise wording of these statements and their relevance to HR centralization/decentralization are provided in the discussion.

The survey also asked a number of questions about the respondents' demographic characteristics, including age, gender, years in the HR field, educational attainment, perceived level of HR expertise, and agency size (see appendix). These demographic characteristics are used as independent variables in the analysis. The survey results are presented first in aggregate form. Then, contingency table analyses and regression analysis are used to examine the influence of respondents' demographic characteristics on their feelings about the suggested outcomes of adopting a central state HR office.

## Findings

Table 1 presents the overall survey findings and reports the percentage of HR directors who agreed (that is, indicated they "strongly agree" and "agree") and disagreed (that is, indicated they "strongly disagree" and "disagree") with the listed statements. The table also reports the percentage of HR directors who were neutral in their level of agreement or disagreement with the statements.

**Table 1 Texas State HR Directors' Opinions about the Creation of a State HR Office (percent)**

Creating a central state HR office would ...	Agree	Neither agree nor disagree	Disagree
Decrease duplication of HR effort in state agencies	41.5	25.5	33.0
Reduce the state's liability for HR-related lawsuits	25.0	13.0	62.0
Help protect state employees from partisan political influences	21.4	37.1	41.5
Make it easier to address statewide HR problems and issues (e.g., employee turnover, training, etc.)	42.4	14.1	43.4
Create more equity (e.g., fair and just treatment of all employees, regardless of race, gender, etc.) in state government employment	24.4	21.3	54.2
Improve the overall effectiveness of the state's HR function	27.7	16.0	56.4
Take away the HR flexibility that state agencies need to be effective	76.8	10.5	12.6

*Source:* Lone Star HR Survey of Texas state agency HR directors, conducted May-June, 2002.

*Note:* Figures in the table are percentages. Survey responses were coded as follows: 1 = strongly agree; 2 = agree; 3 = neither agree/disagree; 4 = disagree; 5 = strongly disagree; and 6 = no opinion/don't know (not included). Percentages may not sum to 100 due to rounding (N = 101).

In response to the first item, "Creating a state HR office would decrease duplication of HR effort in state agencies," a plurality (41.5 percent) agreed and one-third (33 percent) disagreed that a central HR office would decrease duplication of HR effort. If such an office existed, it likely would be responsible for promulgating rules and developing policies and procedures that would be used across state agencies. From the traditional public HR perspective, such a centralized approach would assure a measure of consistency in Texas's HR function and promote efficiency, as agencies would not find themselves reinventing the wheel when it comes to developing HR polices and programs. On this item, there seemed to be a moderate level of recognition of centralization's potential benefits among Texas HR directors.

For the second item, respondents were asked whether they agreed or disagreed that "Creating a state HR office would reduce the state's liability for HR-related lawsuits." In Texas, as in other states (Walters 1997), employee-initiated lawsuits are no trivial matter. The Texas state comptroller reported the state paid out an average of \$20 million annually for employment-related settlements and

judgments between 1992 and 1996 (Texas State Auditor's Office 1997, 8). Moreover, the Texas Commission on Human Rights—the agency responsible for monitoring and investigating claims of workplace discrimination in state agencies—received close to 600 employee complaints in 1999 alone (GPP 1999). Despite this fact and the potential for a central HR office to provide HR expertise and consistent legal direction, a strong majority (62 percent) of respondents *disagreed*, and only 25 percent agreed that a central HR office would reduce the state's liability for HR-related lawsuits.

The next item is related to the effect of HR centralization on political influences in state employment. This item is important in light of suggestions by public HR observers that decentralization increases the chances of political abuse (Cogburn 2003; Kearney and Hays 1998; Kellough 1998; Thompson 1994; Walters 2003). When asked if "Creating a central state HR office would help protect employees from partisan political influences," most respondents did not agree. Specifically, a plurality (41.5 percent) disagreed with the statement, 37 percent were neutral, and 21.4 percent agreed. Still, the fact that one out of every five respondents agreed with the statement may be enough to raise eyebrows among those who worry about decentralization's potential to facilitate political influence in HR decision making.

Centralized HR systems may also be beneficial from the standpoint of offering coordinated responses to statewide HR problems. In Texas, observers have noted the lack of HR centralization has hampered important HR efforts such as workforce planning and employee training (Barrett and Greene 1999; Ingraham and Selden 2002). In the survey, roughly equal percentages agreed (42.4 percent) and disagreed (43.4 percent) that "Creating a central state HR office would make it easier to address statewide HR problems and issues (e.g., employee turnover, training, etc.)." As with the duplication of HR effort, these findings seem to suggest at least a moderate level of recognition among respondents of the potential benefits of centralized HR.

The fair and equitable treatment of employees has been a defining value of public HR—even if it is not always achieved. For this reason, informed observers have cautioned about the impact of HR decentralization on equity (Kellough 1998; Peters and Savoie 1996). To see how respondents felt about the equity issue in Texas, they were asked to agree or disagree with the statement, "Creating a central state HR office would create more equity (fair and just treatment of all employees, regardless of race, gender, etc.) in state government employment." A majority (54.2 percent) disagreed, but nearly one-fourth (24.4 percent) agreed that a central HR office could create more equity within state government employment. This seems to suggest that a significant (that is, substantively significant)

percentage of Texas HR directors see room for improvement in the equitable treatment of state employees.

The final two statements presented in table 1 may be the most fundamental. The contemporary HR reform dialogue typically portrays HR centralization as anathema to administrative effectiveness. Decentralized HR systems that afford agency managers the flexibility needed to effectively manage their human resources are preferred. When asked whether they agreed or disagreed that "Creating a central state HR office would improve the overall effectiveness of the state's HR function," a majority (56.4 percent) of respondents disagreed and only 28 percent agreed. Similarly, respondents overwhelmingly agreed (76.8 percent) that "Creating a central state HR office would take away the HR flexibility that state agencies need to be effective." Together, these results demonstrate strong support among Texas HR directors for decentralized HR and the flexibility it affords.

In summary, with the possible exceptions of reducing duplication and facilitating responses to statewide HR issues, the results reported in table 1 suggest that Texas HR directors do not see much value in creating a central state HR office. But what happens to this general picture when respondents' demographic characteristics are taken into account? To answer this question, cross-tabulations between each of the seven survey items (dependent variables) and each of the demographic characteristics (independent variables) were calculated. The strength and direction of these effects were determined by gamma statistics ( $g$ ) for each cross-tabulation. Gamma is a widely used measure of association for ordinal data (Newcomer 1994): Higher absolute values represent stronger relationships between variables.<sup>4</sup> For convenience and clearer presentation, the cross-tabulation results are summarized in table 2. Full contingency tables for each question and each independent variable are available from the author.<sup>5</sup>

### Age and Gender

The first two columns in table 2 examine the effects of age (coded 1 = age 34 and under; 2 = age 35–44; 3 = age 45–54; and 4 = 55 years and older) and gender (coded 1 = female, 0 = male) on respondents' opinions. As the results show, these two variables had little effect on respondents' levels of agreement or disagreement with statements about the suggested benefits of HR centralization. The only statistically significant relationship between respondents' age and opinion concerned equity. Recalling that larger values on the dependent variables represent stronger levels of agreement, and that larger values on the age variable represent older respondents, the gamma statistics ( $g = -0.228$ ,  $p < .10$ ) indicate that older respondents were more likely to disagree that a central HR office would produce more equity in Texas state government. Similarly, the only sta-

tistically significant relationship between respondents' gender and opinion concerned the likelihood that a central HR agency will curb political influences on state employees. The positive gamma ( $g = 0.306, p < .10$ ) suggests that female respondents agreed more strongly than their male counterparts that creating a central HR office would offer employees protection from partisan political influences. In general, however, neither age nor gender appears to have had much effect on the HR directors' opinions.

### Years in the HR Field

Because HR directors with more experience are likely to be accustomed to working in Texas's decentralized HR system, it is reasonable to expect those with longer tenures in the HR field (coded 1 = under five years; 2 = 5–10 years; 3 = 11–15 years; 4 = 16–20 years; and 5 = 21 or more years) would be less likely to see the benefits of creating a central HR office. As the negative gammas in the third column of table 2 show, such a relationship is evident: Respondents with more HR experience were more likely to *disagree* than their less experienced counterparts that a central HR office would reduce the state's HR-related liability ( $g = -0.231, p < .10$ ), make it easier to address statewide HR issues ( $g = -0.321, p < .01$ ), create more equity in state employment ( $g = -0.236, p < .05$ ), or improve the overall effectiveness of the state's HR function ( $g = -0.290, p < .01$ ). Finally, and as expected, the positive gamma ( $g = 0.215, p < .10$ ) for the last item shows that the longer respondents have been in the HR field, the more likely they would agree that creating an HR office would take away the HR flexibility state agencies need to be effective. Importantly, the strength of several of these relationships is weak (that is,  $g < 0.30$ ), but the results indicate that years of HR experience had a consistent effect on respondents' opinions.

### Educational Attainment

As with years of HR experience, it is plausible that more educated respondents will have more HR and administrative knowledge. For this analysis, respondents were classified according to their educational attainment (coded 1 = high school diploma; 2 = associate's degree; 3 = bachelor's degree; and 4 = graduate degree<sup>6</sup>). The fourth column of table 2 shows that educational attainment is important to understanding respondents' levels of agreement or disagreement. Specifically, as respondents' educational attainment increases, so does their level of disagreement that a central HR office would reduce the state's liability ( $g = -0.319, p < .01$ ), offer more protection to state employees from political influences ( $g = -0.341, p < .01$ ), make it easier to address HR problems and issues affecting the entire state ( $g = -0.353, p < .01$ ), produce more equity in Texas state government ( $g = -0.291, p < .05$ ), or improve the overall

effectiveness of the state's HR function ( $g = -0.323, p < .01$ ). Finally, and consistent with these findings, more educated respondents seemed more likely to agree that creating a state HR office would take away the flexibility they need to be effective, but the gamma for this relationship ( $g = 0.215$ ) is not statistically significant. In sum, these results show that educational attainment had a statistically significant effect, often at moderately strong levels, on respondents' feelings about the consequences of adopting a state HR office.

### HR Expertise

Next, the relationship between respondents' perceived levels of HR expertise and their feelings about the consequences of creating a state HR office were examined. Here, HR expertise is represented by the respondent's level of agreement or disagreement with the following statement: "In my agency, we have the HR expertise and staff resources we need to be effective." Responses to the statement were coded 1 for "strongly disagree," 2 for "disagree," 3 for "neither agree or disagree," 4 for "agree," and 5 for "strongly agree."<sup>7</sup> The expectation is that respondents who have more perceived HR expertise within their agencies will be more likely to disagree that a central HR office would produce the outcomes presented in the survey. The results in table 2 support this hypothesis: Respondents with stronger perceptions about their agencies' HR expertise and resources were more likely to disagree that a state HR office would help to reduce the state's liability for HR lawsuits ( $g = -0.291, p < .05$ ), afford state employees more protection from political influences ( $g = -0.359, p < .01$ ), facilitate statewide HR problem resolution ( $g = -0.335, p < .05$ ), produce more equity in Texas state government ( $g = -0.232, p < .10$ ), and improve the overall effectiveness of the state's HR function ( $g = -0.321, p < .05$ ). The final result reported for this variable suggests that respondents with stronger perceptions about their agencies' HR expertise were more likely to agree that a state HR office would take away the flexibility agencies need to be effective ( $g = 0.313, p < .05$ ). Clearly, these results show that perceived levels of HR expertise had a consistent and expected effect on respondents' opinions.

### Agency Size

The final independent variable that was examined through contingency table analysis is agency size. This is an important variable because previous research has shown that smaller state agencies often have a more difficult time meeting their HR obligations (Barrett and Greene 1999; Selden, Ingraham, and Jacobson 2001; Walters 1997). Many times, these problems stem from the fact that small agencies have one person—who may or may not be a trained HR professional—responsible for overseeing sev-

**Table 2 Relationships between HR Centralization Questions and Independent Variables**

Creating a central state HR office would ...	Age	Gender	Years in HR	Educational attainment	HR expertise	Agency size
Decrease duplication of HR effort in state agencies	.036	-.196	-.181	.005	-.141	-.114
Reduce the state's liability for HR-related lawsuits	-.143	.207	-.231*	-.319***	-.291**	-.312***
Help protect state employees from partisan political influences	-.191	.306*	-.178	-.341***	-.359***	-.323***
Make it easier to address statewide HR problems and issues (e.g., employee turnover, training, etc.)	-.108	.131	-.321***	-.353***	-.335**	-.418***
Create more equity (e.g., fair and just treatment of all employees, regardless of race, gender, etc.) in state government employment	-.228*	.134	-.236**	-.291**	-.232*	-.301***
Improve the overall effectiveness of the state's HR function	-.111	.043	-.290***	-.323***	-.321**	-.384***
Take away the HR flexibility that state agencies need to be effective	.039	.171	.215*	.215	.313**	.323**

Source: Lone Star HR Survey of Texas state agency HR directors, conducted May–June, 2002.  
 Note: All table entries are gamma (g) statistics taken directly from contingency analysis tables (not shown). A g value of (±) 0.30 to 0.40 indicates a moderate relationship between variables. Complete cross-tabulations are available from the author upon request.  
 \* $p < .10$ ; \*\*  $p < .05$ ; \*\*\*  $p < .01$ .

eral management functions such as budgeting, purchasing, and HR (Selden, Ingraham, and Jacobson 2001, 601). Such difficulties have been identified in Texas, where small agencies have been found to lack the HR staff and capacity found in medium and large agencies and to have problems in important areas of HR management (Texas State Auditor's Office 1999, 2000).

For these reasons, it is expected that respondents from small state agencies will have different feelings than their counterparts from medium and large agencies. Agencies were coded 1 if they had 99 or fewer full-time equivalent employees (FTEs), 2 if they had 100–499 FTEs, 3 if they had 500–999 FTEs, and 4 if they had 1,000 or more FTEs. The results reported in the last column of table 2 confirm these expectations: Agency size is associated with respondents' levels of disagreement. As shown, the larger a respondent's agency, the more likely they were to disagree that a state HR office would decrease the state's liability ( $g = -0.312, p < .01$ ), provide state employees greater protection from political influences ( $g = -0.323, p < .01$ ), make it easier to tackle statewide HR problems ( $g = -0.418, p < .01$ ), create more equity in state government employment ( $g = -0.301, p < .01$ ), or improve the overall effectiveness of the state's HR function ( $g = -0.384, p < .01$ ). On the last item, respondents from larger agencies were, as expected, more likely to agree that creating a state HR office would take away the flexibility needed to be effective ( $g = 0.323, p < .05$ ).

In summary, the results reported in table 2 show that interesting differences of opinion exist among Texas's HR directors regarding the potential benefits of creating a statewide HR office. In particular, when viewed separately, lev-

els of perceived HR expertise, educational attainment, years of HR experience, and state agency size stand out as consistently and significantly related to respondents' opinions.

### Combined Effects

Regression analysis was performed to see the relative effects of the demographic characteristics on respondents' opinions. The dependent variable for the analysis is a scale of perceived HR centralization benefits that was created by summing the responses to the seven survey items.<sup>8</sup> Given the coding of responses to the individual items included in the scale (where higher values are associated with stronger levels of agreement), higher values on the scale correspond to more positive sentiments about the benefits of HR centralization (see the

note in table 3). The scale has a high degree of internal reliability, as evidenced by a Cronbach's alpha of 0.920. The independent variables include a variable for respondent age (coded 1 = 34 years of age or younger to 4 = 55 years and older); a dummy variable for gender (coded 1 = female, 0 = male); a variable for years in the HR field (ranging from 1 = under five years to 5 = 21 or more years); a variable for educational attainment (ranging from 1 = high school to 4 = graduate degree); a dummy variable for perceived HR expertise (coded 1 = "agree" or "strongly agree" that the agency possesses HR expertise and 0 = "disagree" or "strongly disagree"); and dummy variables for small agencies (coded 1 = agencies with 99 or fewer FTEs, 0 otherwise), small to medium agencies (coded 1 = 100–499 FTEs, 0 otherwise), and medium to large agencies (coded 1 = 500–999 FTEs, 0 otherwise).<sup>9</sup>

Table 3 presents the regression results. The results corroborate several findings from the contingency table analyses. Specifically, agency size, HR expertise, and educational attainment each had a statistically significant effect on respondents' scores on the scale of the perceived benefits of HR centralization. The result that really stands out is the coefficient for the educational attainment variable. This coefficient ( $b = -2.172, p < .005$ ) indicates a significant, inverse relationship between educational attainment and the perceived benefits of HR centralization: For every unit change in the educational attainment variable, average scores on the scale decreased by just over two points. In other words, education had a significant negative effect on respondents' opinions about the benefits of HR centralization. The relative strength of this variable's effect is in-

icated by its standardized coefficients ( $\beta = -0.351$ ), which is the largest in the table. As for agency size, the coefficient for the small-agency variable ( $b = 3.309$ ,  $p < .075$ ) indicates that respondents from smaller agencies scored, on average, more than three points higher than respondents from the large-agency reference group. This suggests that respondents from small agencies hold more favorable views about the effects of creating a state HR office. This is perfectly reasonable given the HR capacity issues that often plague small agencies. And, as indicated by its standardized coefficient ( $\beta = 0.242$ ), the small-agency variable had the second-strongest effect among the variables on scale scores. The significant coefficient for the medium to large variable ( $b = 5.284$ ,  $p < .046$ ) was unexpected. HR directors from these agencies were more likely than their counterparts in large agencies to see the benefits of HR centralization. Substantively, this suggests that HR directors from small agencies are not the only ones to recognize the potential benefits of HR centralization. As for the effects of HR expertise, the estimated coefficient ( $b = -2.592$ ,  $p < .081$ ) indicates a significant relationship: HR directors who perceive that their agencies possess HR expertise were generally less positive about the potential effects of HR centralization. The remaining variables in table 3 show no direct effects. The positive coefficient for small to medium agencies ( $b = 1.422$ ) is in the expected direction, but falls short of statistical significance. Similarly, the coefficient for the years in HR variable ( $b = -0.362$ ) is in the expected direction, but shows no direct effect on scale scores. Finally, and as was the case in the contingency table analyses, neither the gender ( $b = -2.121$ ) nor age ( $b = -0.905$ ) variable show direct effects. In sum, the results from the regression analysis support the robustness of the results from the contingency table analyses: When respondents' demographic characteristics are considered together, educational attainment, agency size, and perceived HR expertise again demonstrate significant effects on opinions about HR centralization's potential effects.

## Conclusion

Debates over the putative benefits of public HR decentralization are ongoing. Centralized HR systems, which are characteristic of traditional merit and civil service systems, are associated with standardization, consistent and equitable decision making, protection from political influence, and economies of scale. Experience has shown, however, that central HR systems are also characterized by their slowness, rigidity, complexity, and unresponsiveness. In contrast, decentralized HR systems are thought to offer the flexibility and responsiveness needed by today's public agencies for effective administration. Currently, proponents of decentralization seem to have the upper hand, as evi-

**Table 3 Influences on a Scale of Perceived HR Centralization Benefits**

Independent variables	OLS regression coefficients (b)	Standardized coefficients ( $\beta$ )	Significance (p)
Age	-.905 (.929)	-.114	.334
Gender	-2.121 (1.738)	-.152	.226
Years in HR field	-.362 (.588)	-.081	.270
Educational attainment	-2.172 (.813)	-.351	.005
HR expertise	-2.592 (1.832)	-.150	.081
Agency size			
Small ( $\leq 99$ FTEs)	3.309 (2.269)	.242	.075
Small to medium (100–499 FTEs)	1.422 (2.335)	.083	.273
Medium to large (500–999 FTEs)	5.284 (3.089)	.207	.046
Intercept	29.536 (4.769)		.000
F ratio	3.159		.004
R <sup>2</sup>	.268		

Source: Lone Star HR Survey of Texas state agency HR directors, conducted May–June, 2002.

Note: Entries in the first column are ordinary least squares regression coefficients, with standard errors shown in parentheses. Standardized regression coefficients are in the second column. The final column shows significance levels (all test are directional, except for the age and gender variables, which are two-tailed). The dependent variable in the analysis is a scale consisting of responses to seven statements related to the effects of creating a central state HR office (see table 1). Possible values range from a low of 7 (if a respondent “strongly disagreed” with each item) to 35 (if a respondent “strongly agreed” with each item). The mean value for the scale is 18.47, and the standard deviation is 6.64. The scale exhibits strong internal reliability (Cronbach's alpha = 0.920). Cases with missing data were dropped from the analysis ( $n = 78$ ).

denced by a spate of HR reform efforts around the country that have embraced decentralization as a central tenet.

As discussed in the literature, there is general agreement that the success of HR decentralization depends largely on the HR capacity of managers and HR professionals in line agencies. Indeed, these individuals will assume a primary role in responsibly and effectively administering the public HR function in decentralized settings. Nevertheless, knowledge about the preferences and opinions of practicing HR professionals on issues associated with HR centralization and decentralization is limited. Using the case of Texas, this article has sought to offer insights to the HR centralization/decentralization debate from the unique perspective of state HR directors operating in a significantly decentralized system.

The research findings presented here demonstrate that opinions about the possible outcomes of HR centralization vary among Texas's HR professionals in important ways. Respondents from small state agencies and those lacking in educational attainment are much more likely to see the benefits of adopting a central model of HR than respondents from large agencies and those with more edu-

cation. These are important—but not altogether surprising—findings. Previous research has shown that small agencies often do not possess the HR expertise and resources needed to be effective. Therefore, it is reasonable to expect that individuals working in small agencies would be more likely to see the benefits of adopting a centralized HR system. Such is clearly the case in Texas. More broadly, this suggests that states or other jurisdictions that are contemplating reforms to decentralize HR need to seriously consider the special circumstances of small agencies. To do otherwise risks overwhelming the limited resources that small agencies possess, thus inviting trouble. In an environment where public employers often find it difficult to compete with private-sector employers for talent, and where the legal risks of HR *mismanagement* are high, it is imperative to address the HR capacity needs of small agencies. One option, which has been used in Texas, is to use service agreements between smaller agencies and larger agencies for HR services. Such an approach can meet current desires for decentralized HR while effectively addressing the HR needs of smaller agencies.

Findings also indicate that HR professionals in small agencies may not be the only ones facing challenges in meeting their HR responsibilities. In Texas, this was evident in the responses of individuals from medium to large state agencies and those who did not feel their agencies possess the HR expertise needed to be effective. This suggests that questions of HR capacity are not unique to small agencies; rather, individuals in larger agencies, along with those perceiving possible shortcomings in their HR capacity, may see the potential benefits of centralizing HR. Here again, this points to the importance of building HR capacity—or at least assuring that it exists—in *all* agencies operating in decentralized systems.

Finally, findings that show the importance of educational attainment to respondents' opinions speak to the professional nature of the HR field. With each new HR law, HR-related court decision, and technological advancement, the working world (in general) and the job of HR professionals (in particular) become more complex. Gone are the days of the clerical "personnel department." HR has truly become a profession. As such, government's HR professionals require knowledge and skills sets that can best be achieved through formal education. In Texas, education's effects are clearly manifest in HR directors' opinions: Those with higher educational attainment have more confidence in their agencies' ability to effectively manage HR compared with a central HR office. In practical terms, the implication is that jurisdictions should closely examine the educational requirements of their HR positions so as to ensure that individuals selected for, or already holding, those positions have the knowledge base needed to succeed.

## Epilogue

Texas, like most other states, faced severe budget pressures for the 2004 and 2005 fiscal years.<sup>10</sup> In the face of harsh fiscal realities, the state's legislature passed House Bill 3442. Among other things, the bill charged Texas's State Council on Competitive Government (SCCG) with examining the benefits of consolidating the HR functions of small- and medium-sized state agencies (specifically, those with 500 or fewer FTEs). Such a consolidation could come about (1) by creating a state office of human resources, or (2) by outsourcing HR to a private-sector provider(s). The rationale for conducting this investigation was simple: The state was (and is) seeking more cost-effective ways to administer the state's HR function. The lesson here is that HR discretion and flexibility are good, but cost-effectiveness is better politically, especially in lean fiscal times.

SCCG produced its initial report in May 2004, finding that HR outsourcing potentially could save the state several million dollars per year largely through salary savings from eliminated state HR positions. The report (SCCG 2004), however, stopped short of recommending HR consolidation and outsourcing for the small- and medium-sized agencies: The SCCG recommended these agencies first pursue cost-savings by adopting HR staff-to-employee ratios of 1-to-85 (as already required for state agencies over 500 FTEs). The SCCG plans to monitor HR costs during 2005 and will make further recommendations at the end of the year, including whether to move forward with HR outsourcing.

While the SCCG continues to study HR outsourcing, one large Texas agency—the 46,000-employee Texas Health and Human Services Commission (HHSC)—has already acted. HHSC officials announced in June 2004 the award of an HR services contract to the private sector firm *Convergys*. *Convergys* is the same Ohio-based firm that recently won the HR outsourcing contract for the State of Florida as part of Governor Jeb Bush's "Service First" reform initiative.<sup>11</sup> Such activity raises an important but often neglected aspect of HR outsourcing. It is not uncommon to think of HR outsourcing as yet another example of decentralization. After all, a governmental function is being spun right out of government. Such thinking, however, misses the mark: HR outsourcing is, in essence, an effort to *centralize* HR. Just like the traditional centralized model of public HR, outsourcing efforts are typically sold on their ability to maximize classic instrumental values such as efficiency and economy (Kellough and Selden 2003; Siegel 2000). This occurs because HR functions are consolidated within one entity—just not a public one. Thus, by centralizing HR, outsourcing may provide efficiencies through economies of scale. Recalling that pub-

lic HR is a field in which administrative arrangements oscillate according to the prevalent administrative values, could it be that momentum for HR *centralization* is growing even at a time when the HR field is preoccupied with HR decentralization?

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## Notes

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1. Texas did have a Merit System Council (MSC) that operated as a central HR office for the handful of agencies it covered. The MSC was created in the early 1970s but was allowed to expire in 1985. After its demise, the agencies formerly covered by the MSC joined the other state agencies in assuming responsibility for their own HR programs. For more information, see Walters (2002) and Cogburn (forthcoming).
2. For more thorough overviews of the HR function in Texas, including the various agencies and institutional actors that influence HR in the state, see Walters (2002) and Cogburn (forthcoming).
3. For this research, responses were coded as follows: 1 = “strongly disagree,” 2 = “disagree,” 3 = “neither disagree or agree,” 4 = “agree,” and 5 = “strongly agree.” Respondents could also choose “don’t know/no opinion.” These responses were coded 6, but are not included in the analysis.
4. Absolute values of gamma ( $g$ ) between 0.30 and 0.40 indicate moderate levels of association between variables. See O’Sullivan and Russell (1999, 406) and the works referenced therein.
5. Seven contingency tables were created for the analysis. Each table contains the distribution of responses on each survey statement (dependent variable) for each demographic characteristic (independent variables). Given space considerations and the desire for a straightforward presentation of results, the detailed contingency tables are not included here; however, the author will gladly make these tables available upon request.
6. Graduate degrees earned included 32 master’s degrees, seven juris doctorates, and two PhDs.
7. Respondents could also choose “don’t know/no opinion.” These responses were coded 6, but are not included in the analysis.
8. The orientation of the last question, “Creating a central state office of HR would take away the HR flexibility that state agencies need to be effective,” is the opposite of the six other questions. Disagreement with this item suggests more positive feelings about the effects of HR centralization, whereas agreement with the other six items suggests more positive feelings about HR centralization’s effects. Thus, responses for the last item were recoded for internal scale consistency.
9. Research shows that small agencies face unique challenges in HR. Therefore, dummy variables were included for agency size to isolate the specific effects of small state agencies. Although dummy variables can introduce multicollinearity, a check of variance inflation factors for each variable in the model showed that the largest was 2.60 (for small agency variable), well below published thresholds for concluding that multicollinearity is problematic (Berman 2002, 138; Myers 1990, 369).
10. The Texas legislature meets every other year and operates on the basis of a biennial budget.
11. Florida recently awarded an HR outsourcing contract to the private-sector firm Convergys. Complete details on Florida’s “People First” HR outsourcing project are available at [www.myflorida.com/dms/pfs/PeopleFirst.htm](http://www.myflorida.com/dms/pfs/PeopleFirst.htm).

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### Appendix Independent Variables for Contingency Table and Regression Analyses

Variable	Number	(percent)
Age (n = 101)		
34 years or Less	7	(6.9)
35–44 years	23	(22.8)
45–54 years	45	(44.6)
55 years and older	26	(25.7)
Gender (n = 101)		
Female	60	(59.4)
Male	41	(40.6)
Educational attainment (n = 101)		
High school diploma	19	(18.8)
Associate's degree	4	(3.9)
Bachelor's degree	37	(36.6)
Graduate degree	41	(40.6)
Years in the HR Field (n = 101)		
Less than five years	27	(26.7)
5–10 Years	21	(20.8)
11–15 Years	16	(15.8)
16–20 Years	14	(13.9)
21 or more years	23	(22.8)
HR expertise (n = 99)		
Strongly agree	24	(24.2)
Agree	50	(50.5)
Neither agree/disagree	7	(7.1)
Disagree	17	(17.2)
Strongly disagree	1	(1.0)
Agency Size (n = 99)		
99 or less FTEs	57	(56.4)
100–499 FTEs	20	(19.8)
500–999 FTEs	9	(8.9)
1,000 or more FTEs	15	(14.9)

Source: Lone Star HR Survey of Texas state agency HR directors, conducted May–June, 2002.

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