

Human Resource Strategies and Competitive Advantage: Competency- Based Perspective

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Abstract

The purpose of this chapter is to discuss some of the main features and developments in human resources (HR) strategy. Human resource strategy is designed to develop the skills, attitudes and behaviors among staff that will help the organization meet its goals. Human resource strategy consists of principles for managing the workforce through HR policies and practices. It covers the various areas of human resources functions such as recruitment, compensation, performance management, reward and recognition, employee relations and training. HR strategy must be aligned with the organization's vision, mission and goals. The HR function remains among the least influential in most organizations, and competitive strategies have not typically been based on the skills, capabilities, and behaviors of employees. In fact, as Snell, Youndt and Wright (1996:62) noted, in the past executives have typically tried to "take human resources out of the strategy equation--i.e., by substituting capital for labor where possible, and by designing hierarchical organizations that separate those who think from those who actually do the work."

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Introduction

In developing an HR strategy, the company must analyze the characteristics of its industry, determine its competitive advantage, and identify key processes and key people. Creating different strategies for all groups of people in the organization may be necessary, depending on their skills, knowledge and responsibilities. The strategy must look at the organization's culture, structure, people and systems.

The key principles of the Human Resources Strategy:

- Regards its staff as its most valuable asset
- Recognizes that staff play the definitive role in the learning experience of our students and the service to other stakeholders including employers
- Recognizes the importance of the relationship between good people management and the ultimate performance of the College
- Recognizes the importance of attracting and retaining effective, well-qualified and motivated staff in relation to sustainable success of the organizations

Competitive Challenges Influencing HRM

This Figure shows the top high-need applied skills for employers. However, new entrants to the workplace lack these and other skills needed for companies to compete in the global economy. Several studies illustrate the skill deficit companies are experiencing. A study by the Business Roundtable found that 62% of employers report they are having difficulty finding qualified job applicants to fill job openings. More than half indicated that at least 16% of their workforce has skills gaps that adversely affect productivity. Similarly a study by a consortium of Society for Human Resource Management, American Society for Training and Development, The Conference Board, and Corporate Voices for Working Families found that regardless of their education level only half the companies surveyed rated new employees as adequately prepared for work. Companies' greatest basic skills needs were in reading, writing, and math.

How HR can master strategy?

HR should play a pivotal role in business strategy, particularly in organizations that consider their people a key asset. But the way to the CEO's heart involves engaging with other business functions, talking their language and overcoming some intrinsic barriers.

Take recent research by the CIPD, which finds nearly one in five (18%) business leaders is unaware of HR's contribution to business strategy, while a further 18% say senior HR people have no involvement in business strategy at all.

While HR's contribution to strategy may sometimes go unnoticed, 70% of CEOs want their HR directors to be a key player in strategic planning, according to a 2012 Economist Intelligence Unit study. HR's ability to influence wider business strategy is often at the heart of discussions about the function's purpose and potential.

For starters, can 'HR strategy' even be pinned down?

Mark Sandham, senior vice-president of organizational effectiveness and HR operations at media and information firm Thomson Reuters, believes it can. However, he prefers to define HR strategy as a "people strategy designed to enable business goals and objectives". "You can't create an HR strategy in isolation and keep it internally focused on HR activities and deliverables," he says. "Rather, you must understand where the business is heading, what kind of talent is needed, in what countries or for what customers, and at what cost. From there, you can develop a strategy around your people to help the business achieve its goals." Sandham says the days of HR being solely about implementing processes and managing employee relations are a thing of the past.

Competitive Advantage - Industry Perspective

From an industry perspective (Wright, et al., 1994), Porter (1985) states that there are two ways in which a business can gain competitive advantage over its competitors; cost reduction or product differentiation. The cost reduction strategy involves producing a similar quality product or service at a lower cost than competitors; therefore provided they can command a similar price, they will have a higher profit margin than competitors. The product differentiation strategy on the other hand, involves producing a differentiated product to competitors that is unique in a way that is of high value to consumers. By being unique, they can command a higher price for the product; provided this price margin is greater than the increased costs of producing the differentiated product, they will receive a greater profit. Porter felt that these two methods were mutually exclusive and that organisations must choose one strategy in order to potentially gain competitive advantage because differentiating a product usually involves higher costs. However, the opposite is also true; in order to be the cost leader, they often need to forego some differentiation in the product or service (Porter, 1985). The first criterion for competitive advantage in an organisation is that the resources must be valuable (Barney, 1995). However, how can an organisation's resources – particularly human resources - be accurately valued? (Priem and Butler, 2001). This is not in terms of their salaries, but of the value that they provide for the organisation (Wright, et al., 1994). Value is not something that can be assumed. The resources must first be understood in relation to the specific market the organisation is operating in (Barney, 2001), meaning the specific skills and capabilities each person holds will provide more or less value depending on the market in which the organisation operates. From there, value can be determined by whether or not these skills and capabilities enable the organisation to exploit its opportunities and reduce the effect of its threats and how the organisation recognises and responds to these opportunities and threats in the changing environment (Barney, 1995).

Corporate Strategy

Corporate strategy refers to the overall strategy of an organization that is made up of multiple business units, operating in multiple markets. It determines how the corporation as a whole supports and enhances the value of the business units within it; and it answers the question, "How do we structure the overall business, so that all of its parts create more value together than they would individually?" Corporations can do this by building strong internal competences, by sharing technologies and resources between business units, by raising capital cost-effectively, by developing and nurturing a strong corporate brand, and so on. So, at this level of strategy, we're concerned with thinking about how the business units within the corporation should fit together, and understanding how resources should be deployed to create the greatest possible value. Tools like **Porter's Generic Strategies**, **Boston Matrix**, Etc. Will help with this type of high-level analysis and planning. The **organization's design** is another important strategic factor that needs to be considered at this level. How you structure your business, your people, and other resources – all of these affect competitive advantage and can support your strategic goals.

Types of HR Strategies

Because all organizations are different, all HR strategies are different. There is no such thing as a set of standard characteristics. Research into HR strategy conducted by Armstrong and Long (1994) and Armstrong and Baron (2002) revealed many variations. Some strategies are simply very general declarations of intent. Others go into much more detail. But two basic types of HR strategies can be identified. These are: **1) overarching strategies; and 2) specific strategies** relating to the different aspects of human resource management.

Overarching HR strategies: Overarching strategies describe the general intentions of the organization about how people should be managed and developed and what steps should be taken to ensure that the organization can attract and retain the people it needs and ensure so far as possible that employees are committed, motivated and engaged. They are likely to be expressed as broad-brush statements of aims and purpose, which set the scene for more specific strategies. They are concerned with overall organizational effectiveness – achieving human resource advantage by, as Boxall and Purcell (2003) point out, employing ‘better people in organizations with better process’, developing high-performance work processes and generally creating ‘a great place to work’.

The following are some examples of overarching HR strategy statements:

AEGON: The Human Resources Integrated Approach aims to ensure that from whatever angle staff now looks at the elements of pay management, performance, career development and reward, they are consistent and linked.

B&Q: Enhance employee commitment and minimize the loss of B&Q’s best people.* Position B&Q as one of the best employers in the UK.

Egg: The major factor influencing HR strategy was the need to attract, maintain and retain the right people to deliver it. The aim was to introduce a system that complemented the business that reflected the way we wanted to treat our customers – treating our people the same. What we would do for our customers we would also do for our people. We wanted to make an impact on the culture – the way people do business.(HR Director)

GlaxoSmithKline: We want GSK to be a place where the best people do their best work.

An insurance company: Without the people in this business we don’t have anything to deliver. We are driven to getting the people issues right in order to deliver the strategy. To a great extent it’s the people that create and implement the strategy on behalf of the organization. We put people very much at the front of our strategic thought process. If we have the right people, the right training, the right qualifications and the right sort of culture then we can deliver our strategy. We cannot do it otherwise.(Chief Executive)

Lands’ End: Based on the principle that staff that are enjoying themselves, are being supported and developed, and who feel fulfilled and respected at work, will provide the best service to customers.

Pilkington Optronics: The business strategy defines what has to be done to achieve success and that HR strategy must complement it, bearing in mind that one of the critical success factors for the company is its ability to attract and retain the best people. HR strategy must be in line with what is best in industry.

A public utility: The only HR strategy you really need is the tangible expression of values and the implementation of values... unless you get the human resource values right you can forget all the rest.(Managing Director)

A manufacturing company: The HR strategy is to stimulate changes on a broad front aimed ultimately at achieving competitive advantage through the efforts of our people. In an industry of fast followers, those who learn quickest will be the winners.(HR Director)

A retail stores group: The biggest challenge will be to maintain [our] competitive advantage and to do that we need to maintain and continue to attract very high caliber people. The key differentiator on anything any company does is fundamentally the people, and I think that people tend to forget that they are the most important asset. Money is easy to get hold of; good people are not. All we do in terms of training and manpower planning is directly linked to business improvement.

Conclusion

The department and HR have to change in many ways. The rate of change is likely to increase quickly and public and political expectations of service levels will continue to rise. Human Resource Management focuses on matching the needs of the business with the needs and development of employees. Tarmac depends on its people because their skills contribute to achieving its business objectives. Within Tarmac, every employee has a valuable role to play. The emphasis is on helping individuals to work together. Workforce planning is part of this strategic process, which looks at the long-term needs across the organizations. Personal development plans enable every individual to grow both professionally and personally within the business. They also help Tarmac to create a distinct and important competitive advantage through selecting and developing highly motivated and skilled staff that are able to perform at high levels.

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