

# Strategic Human Resources Management and Sustainable Competitive Advantage

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## Abstract

The focus of this study is on the assessment of the impact of Human Resources Strategies on Competitive Advantage. The proposition that competitive advantage depends on effective Human Resource Strategies framed the investigation. The selected themes, such as Strategy, Technical Human Resources Management truly describe the impact of Human Resource Strategies on competitive Advantage. While Technical Human Resources Management remain desirable in an organization, they will not yield competitive advantage. To gain competitive advantage, Strategic human resources activities must be explored and exploited.

**Keywords:** Strategy, Business Strategy, Technical Human Resource Management, Strategic Human Resource Management, Sustainable Competitive Advantage.

## 1.0 Introduction

The misfortune of institutions is often rested at the door steps of old employees by the management. As an integral part of their turnaround strategy, old employees are retrenched and new hands recruited. This escapist strategy that is within the domain of Technical human resources Management sometimes fail to accomplish the designed objective as the recruited new employees quickly end up like the retrenched employees. The failure of the owners of capital to focus on strategic human resources management issues is responsible for the vicious circle. The objective of this study is therefore to evaluate the interrelationship between technical human resources management and strategic human resources management and their impact on sustainable competitive advantage.

## 2.0 Methodology

The way research is conducted may be conceived in terms of its paradigm. According to Denzin and Lincoln (1994), paradigm is the basic set of beliefs that guide action that can be viewed as consisting of three main elements: Ontology, epistemology and methodology. As argued by Hughes (1990), every tool or procedure is inextricably embedded in commitments to particular version of the world (ie. Ontology). Ontology is the nature of reality which is immutable. Bryman (2001), identified objectivism and constructionism as the two main ontological approaches. Objectivism is an ontological position that implies that social phenomena confronts us as external facts that are beyond our reach of influence. Constructionism asserts that Social phenomena and their meanings are continually being accomplished by their social actors. There are several factors which affects the attainment of sustainable competitive advantage in the Nigerian banking sector. As a result of my ontological position which is within the domain of constructionism, the focus of this research is only on the impact of strategy human resources management and technical human resources elements on sustainable competitive advantage (Jankowicz 2005). This approach stems largely from my experience and critical review of events in the Nigerian banking sector. Within the context of this research, epistemology will be demonstrated through my interaction with the subject of enquiry and context of study with a view to creating knowledge. Positivism and interpretivism are the two strands of epistemology. The difference between them is the way they approach knowledge. For positivists, scientific knowledge is established through the accumulation of verified facts. Science is thus, deductive and must be carried out in an objective way. In the positivism strand, the role of the researcher is primarily to test theories and create laws. Interpretivism on the other hand, sustains that social phenomena do not exist independently of our interpretation of them; rather it is this interpretation or meaning of social phenomena, which affects social reality (Marsh and Stocker 2002). While the positivists are external to the research process, the interpretivists in contrast take an insider position. They are part of the research process as the subject and object of research are interfaced. For the interpretivists, it is completely natural that the values of the researcher condition research findings because the findings are created through researcher's interaction with their objects (Christoe. Valachis and Anastasiadou, 2005). This study reflects the stance of interpretivism. As a result of my dual role as a researcher and a stakeholder in the industry under study, I will play a part in the research process. It will be impossible for me to carry out this investigation without

being involved. In order for me to understand the subjective meaning of the impact of strategic human resources elements and technical human resources elements on sustainable competitive advantage, I will be immersed in the research context. Emphasis will be given to the utilization of qualitative data. Although interpretivism is weak on ground of subjectivity, Remenyi, Williams, Money and Swartz (1998), posits that the strongest argument of the interpretivist is the necessity to discover the details of the situation and understand the reality working behind them. The ontological and epistemological approach adopted by a researcher, has direct impact on methodological approach. As stated by (Christoe, Valachis and Anastasiadou, (2005), interpretivists are more liable in using action research. The adoption of action research in this study is therefore predicated on this premise. As Kemmis and McTaggart (1988:10) stated, “..... to do action research is to plan, act observe and reflect more carefully, more systematically, and more rigorously than one usually does in everyday life, and to use the relationships between these moments in the process as a source of both improvement and knowledge”.

### **3.0 Towards a definition of Strategy**

Glueck (1980) defined Strategy as a unified, comprehensive and integrated plan designed to ensure that the basic objectives of the enterprise are achieved. According to Glueck when viewed as a “logical”, rational thought process, strategy sits comfortably with a dominant problem-solving and decision making approach, which assumes that senior managers have the power to introduce and implement rationally devised strategic plans. Mintzberg (1987) conceptualization of strategy as craft introduced a major debate on the relative value of deliberate and emergent strategies. Mintzberg recognized that strategy emerges from closeness and awareness of an inward focus, essentially being in touch with the situation. Mintzberg and Quinn (1998:14) posits that “companies use strategy to respond to competitive market changes and improve organizational effectiveness”. For institutional gains to be enduring, the effective management of the elements within strategic human resources is imperative.

### **4.0 Theoretical Perspectives of Strategic Human Resources Management**

There is broad agreement that strategic approach to human resources management (HRM) involves designing and implementing a set of internally consistent policies and practices that ensure a firm’s human capital (employee’s collective knowledge, skills and abilities) contributes to the achievement of business objectives. Fundamental to the strategic HRM perspectives is assumptions that the firm’s performance is influenced by the set of HRM practices firms have in place. Huselid, Jackson & Schuler (1997) found that the empirical research, which established a relationship between HRM policies and practices and firms performance, made little distinction between policies and practices that reflect the more traditional or technical personnel perspectives and those that reflect the adoption of the strategic human resources management perspectives. As argued by Wright & McMahan (1992 295-320), “strategic HRM activities are relatively recent innovations: so stakeholders are not yet likely to hold strong expectations or put pressure on organization to adopt these practices”. Although scholars are yet to reach agreement about how best to define Strategic Human Resources Management, there is nevertheless, broad agreement that it involves designing and implementing a set of internally consistent policies and practices that ensure a firm’s human capital contribution to the achievement of business objectives (Baird & Meshoulam, 1988:116-128). Strategic HRM activities include team-based job designs, flexible workforces, succession planning, quality improvement practice, employee empowerment, studies designed to diagnose a firm’s strategic needs, and planned development of the talent required to implement competitive strategy and achieve operational goals (Huselid, Jackson, & Schuler, 1997:173).

The resources-based view of the firm has stimulated attempts to create a resource based model of strategic HRM (Barney, 1996). The resource based view of the firm is concerned with the relationships between internal resources (of which human resources are one), strategy and firm performance. It focuses on the promotion of sustained competitive advantage through the development of human capital rather than merely aligning human resources to current strategic goals. Human resources can merely provide competitive advantage for the business, as long as they are unique and cannot be copied or substituted by competing organizations. The focus is not on the behavior of the human resources, but on the skills, knowledge, attitudes and competencies which underpins this, and which have a more sustained impact on long term survival than current behavior. Briggs and Keogh (1999) maintain that business excellence is not just about ‘best practice’ or ‘leaping frogging’ the competition, but about the intellectual capital and business intelligence to anticipate the future today, with a view to attaining sustainable competitive advantage. As argued by Barney (1991), for a resource to result in sustained competitive advantage it must meet four criteria. Wright, McMahan & McWilliams (1994) demonstrates how

human resources meet these. First, the resources must be valuable. Wright et al, argue that this is a case where demand for labour is heterogeneous, and where the supply of labour is also heterogeneous- in other words where different firms require different competencies from each other and for different roles in the organization, and where the supply of potential labour comprises individuals with different competencies. On this basis, value is created by matching individual's competencies with the requirement of the firm and/or the job, as individuals will make a variable contribution, and one cannot be substituted easily for another. The second criterion, rarity is related to the first. An assumption is made that the most important competencies for employee is cognitive ability due to further needs to adaptability and flexibility. On the basis that cognitive ability is normally distributed in population, those with high level of this ability will be rare. The talent pool is not limited and many employers are currently experiencing difficulties in finding the talent that they require. Third, resources need to be inimitable. Wright et al. posits that competitors will not be able to duplicate exactly the resources in question, as they will be unable to copy the unique historical condition of the first firm. This history is important as it will affect the behavior of the human resources pool via the development of unique norms and cultures. Thus, even if a competitor recruited a group of individuals from a competitor, they would not be able to produce the same outcomes in the new firm as the context would be different. Finally resources need to be non-substitutable. Although in the short term it may be possible to substitute human resources with others, in the long term the human resources can be transferred across other products markets and technologies.

### **5.0 The Relationship Between Strategic Human Resource Management, Technical Human Resources Management, and Competitive Advantage**

Boxall (1996) argues that there is a theoretical perspective which provides a conceptual base for asserting that human resources are sources of competitive advantage and as such valued as generating strategic capability. Thus there is a case for viewing HR strategy as something more than a reactive matching process. Indeed Wright et al. argue that it provides the case for HR to be involved in the formulation of strategy rather than just its implementation. They suggest that it provides grounding for asserting that not every strategy is universally implementable, and that alternatives may have to be sought or the human capital pool developed further, via human resource practice where it is possible.

Strategic HRM variables which enhance effectiveness, includes, team work, employee participation and empowerment, workforce planning, flexibility, work force productivity and quality of output, management and executive development, succession and development planning for managers, Advance issue identification, employee and manager communications and work/ family balance. The technical HRM variables includes compensation management, recruiting and training, retirement strategies, employee/ individual relation, social responsibility programs, management of labour cost, selection and testing, assessment of employee attitude and performance appraisal (Huselid, Jackson and Schuler, (1997:184).

In a sample of U.S firms drawn from a wide range of industries, Huselid, Jackson & Schuler (1997) found that the level of effective technical human resources management achieved were higher than their levels of strategic HRM effectiveness. Huselid et al (1997) posits that institutionalized activities are inadequate as a means of differentiating from competitors and thus are not powerful tools for gaining competitive advantage. As argued by Huselid et al (1997), the potential gains by firms through increase HRM effectiveness may be greater to the extent they focus on making improvement within the domain of strategic HRM activities.

“..... aging workforce is now a common phrase or stereotype deployed by some psydo- consultants, who in deference to organizational politics, recommend to their principals the retrenchment of experienced hands. In an attempt to cure manpower inadequacy, corporate leaders discard old hands, as was fashionable in the animal farm and proceed to recruit young men and women. This is short sighted. In the absence of strategic human resources management, like talent management and succession planning, new employees will end up like the discarded old employees. To prevent the vicious circle, there should be emphasis on talent management and succession planning that are within the rubrics of strategic human resources management. The short gun approach of the recruitment of young men and women that is within the rubrics of technical human resources management will not yield sustainable competitive advantage. For example, in one of the financial institutions in Nigeria, the management, burdened by the high level of unbalanced books, retrenched the old employees in its finance services department. The management went ahead to recruit young Chartered Accountants to man strategic positions in its finance services department. The objective of the recruitment was not achieved as the Bank ended up with more unbalanced books after the recruitment of the Chartered Accountants. To achieve the objective of corporate existence, experience and knowledge must be jointly exploited as it is difficult to clap with one hand.

As argued by Kaye (1995), the general principle of incorporating strategic HRM in the strategic planning and decision making process is sound. Huselid et al. (1997) show that an investment in human resources is a potential source of competitive advantage. Huselid et al research into the alignment of a firm's system of high performance work practices and its competitive strategy supports the contention of positive outcomes. The research illustrates how a set of internally consistent HRM policies and practices that ensure the employee's collective knowledge, skills and abilities contribute to the achievement of an organization's business objectives. Legge (1995) asserts that a preoccupation with the deliberate and deduction strategic process which drives the organization and the resultant HRM policies, implies that human resources are passive to be developed as required, driving the strategic objectives of the organization. Such strategic integration with business policy considers HRM as largely a third order strategy. Thus, HRM is ignored when strategic business decisions are made (Kaye, 1999). This supports Purcell's (1994) belief that the material conditions for long run strategic decisions, placing HRM as the critical function in corporate strategy do not exist. Pfeiffer & Veiga (1999) are similarly critical of the gap. According to them, rather than putting people first and drawing from the extensive research which confirms that organization do gain competitive advantage through the way they manage people; organizations continue to seek solutions to their competitive challenges by downsizing, outsourcing and weakening their organizational culture. Kaye (1999) asserts that while such situations may match business strategy it is unlikely to generate employee commitment. Kaye added that some organizations when faced with strategic repositioning are unwilling to take on HRM practices which are incremental and collaborative instead they seek transformative change and make economic decisions when managing employee. Such strategies substantiate the view of the hard model of HRM (Storey, 1992:66).

Strategic decisions based on the hard HRM model tend to focus on economic bottom line considerations. Downsizing, for example may manage employee numbers in the short term, but has major human as well as long term strategic implications. Often, the organization loses the skills needed to move forward. Building long term employment relationships based on mutuality of goals and expectation has to be part of strategic HRM. The soft model of strategic HRM is more commodious as it is based on different concept of human resources. Under the soft model, "employees are seen to be proactive, capable of development and worthy of trust and collaboration. It emphasizes communication, motivation and leadership. The focus of this model of HRM is on resourceful humans" (Morris & Burgoyne, in Legge, 1995:67). An organizational culture that gives direction, sense of purpose and involvement will build long term competitive advantage (Kaye, 1999). Although clear distinction exists between the soft and hard models of HRM, they need not be mutually exclusive when it comes to strategic orientation. The development (soft) and structural, task focused (hard) HR strategies do not have to be discrete categories, but could be complement (Stace & Dunphy, 1991). Strategic HRM need to integrate with the business strategy as well as generate employment policies aimed at generating employee commitment. The assertion that strategic human resource management effectiveness enhances firm performance may help bolster arguments intended to procure the resources needed to implement strategic HRM systems. Huselid, Jackson & Schuler (1997) suggest that professional HRM capabilities and to a lesser extent, business- related capabilities increase the effectiveness of strategic HRM activities. According to Huselid et al, two important implications follows: First, professional skills and abilities of human resources staff should be retained even by firms undergoing a paradigm shift since they support the implementation of strategic HRM activities. Second, business related capabilities appear to be important contributors to strategic HRM activities and their development among HRM professionals should be encouraged.

## 6.0 Summary of major findings from research

- i. In the implementation of turnaround strategies, the management focus on Technical human resources management through the retrenchment of old employees while attracting new ones.
- ii. Although technical human resources management elements are desirable in an organization, they will not yield sustainable competitive advantage.
- iii. Strategic human resources management is an enabler of sustainable competitive advantage.
- iv. While strategic human resources and technical human resources functions are not mutually exclusive, a positive relationship was found between strategic human resources management and sustainable competitive advantage.

## 7.0 Recommendations

Strategic Human Resources Management involves aligning organization human resources to the needs of the organization as expressed in the organizational strategy (Forbrum, Tichy & Devanna, 1984). To assist an institution gain competitive advantage HR department must have a strategic focus. This will enable it change

people through its policies on recruitment, selection and induction, talent management, planning, succession etc. Human Resources as a driver of business strategy should nurture the human resources to become valuable and unique with a view to providing the basis for competitive advantage and future growth.

Technical HRM activities and strategic HRM are not neutral concepts without any semblance of interdependence. The two concepts are not mutually exclusive. To attain the goals of strategic HRM, the adoption of the elements of Technical HRM and strategic HRM should be recognized as categorical imperative.

## 8.0 Conclusion

In this study, Technical Human Resource Management, Strategic Human Resource Management and Business Strategy were evaluated. I found that technical human resources elements alone will not result in sustainable competitive advantage. To attain sustainable competitive advantage, strategic human resources elements must be emphasized. In an attempt to attain the goal of business strategy, the management retrench old employees while attracting new ones. As a result of failure to focus on strategic human resources elements, the attracted new hands end up like the retrenched old hands. While technical human resources management elements are desirable in the accomplishment of business strategy, they will not yield sustainable competitive advantage. To attain sustainable competitive advantage, the imperative of strategic human resources management functions, like talent management and succession planning must be recognized. The achievement of the stated key imperative must be predicated on the professionalization of human resources functions.

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