

Human Resource Management: As a Source of Sustained Competitive Advantage of the Firms

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Abstract. This paper tries to emphasize why in the era of globalization human resources are viewed as a source of competitive advantage? Therefore, the aim of this paper is to reveal that human resources management is essential to ensure the success of any organization which is based on the belief that an organization gains competitive advantage by using its people effectively and efficiently. Regarding this new challenge of HRM, this paper strives to identify whether the HRM can be considered as a source of competitive advantage of the firms or not? Finally the result of this study highlights the value of human resources (HR) and its strategic activities which have an influence on organizations performance and competitive abilities.

Keywords: Competitive advantage, Globalization, Human Resource Management (HRM), Performance management

1. Introduction

The term ‘human resource management’ (HRM) is simply the reflection of three words that does not provide much enlightenment. Where, ‘human’ implies it has something to do with people; ‘management’ places it in the domain of business and organization; but ‘resource’ is a highly ambiguous concept that many people find difficult to relate to [1],[2]. Now the question arises what exactly is the ‘HRM’? According to Storey [3], HRM is a distinctive approach to employment management which seeks to achieve competitive advantage through the strategic development of a highly committed and capable workforce. On the other hand, concerning to HRM, American Management Association (AMA), mentioned it can be described as the organizational function accountable for obtaining and maintaining qualified employees [4]. Therefore, from the various approaches of HRM, we came to know that one of the major sources of competitive advantage of a firm are the employees, i.e. HRM. In short it can be said that HRM is an important tool that includes: (a) planning and directing; (b) development and proper utilization of human resources; (c) counselling employees; (d) build public relationship; (e) classify jobs and prepare wage and salary scales; (f) deal with disciplinary problems; (g) negotiate with labour unions and service union contracts; (h) develop safety standards and practices; (i) manage benefit programs, such as group insurance, health, and retirement plans; (j) provide periodic reviews of the performance of each individual employee; (k) recognition of employees strengths and their needs for further development[1].

The theoretical frame work of this paper shows Human Resource Management (HRM) plays a crucial role to address and ensure the success of the firms from a global perspective. Consequently, HRM is the function within an organization which is predominantly tasked with the different issues. These are as the role of recruitment, selection and introduction, personnel administration, training and development, performance and reward management, talent management, succession and career planning, labour relations and HR planning that is providing a general direction to the employees. Furthermore, the purpose of this study is to make an analysis and identifies the value of human resources in an organization for achieving the competitive advantage as well as to find the answer for the following queries: What is the role of the HRM in today’s business world? What are the strategies and driving forces of HRM that enable a firm to improve its

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performance? How the HRM can facilitate a firm to gain its competitive advantage? Consequently, the answers of these questions were elaborated in further sections of this paper.

2. The Role of HRM in Today’s Business

On this new challenge of HRM this paper tries to describe that there are various important factors playing an important role for increasing organizational performance that leads an organization or a firm to promote its core competences. Among them human resource is one of the most essential factor in an organization that need to be taken into consideration. Several authors have different opinions, among them O’Reilly and Pfeffer [5] said that, we do live in a world in which knowledge, intellectual capital, rather than physical capital, is increasingly important and we need smart people who can do great things – increase productivity, build new products and services – and do so even more quickly. Currently, the 1st role played by HRM in a firm is being support system that provides guidance and supervision for the people management in the workplace. The 2nd role is human resourcing that includes necessary tasks as training, development, recruitment, selection and planning. Another role is the strategic management that plays an important part of corporate strategy, which is a key part of the decision making cycle. In short, it is to be noted that HRM in modern enterprises has two inter-related roles: (i) to foster the performance of an enterprise, and (ii) to act as a support for achieving competitiveness through people [6]. Thus, HR strategy is an important determinant of intensity and diversity of human resource practices that assist and guide managers, and affect the success of the organization [7-9]. Similarly, Hamel and Prahalad [10] pointed out that human capital represents the only sustainable source of competitive advantage.

2.1. Strategies and Driving Forces of HR Facilitate Firms to do Business

While analyzing the strategies and driving forces of human resources it is necessary to mention that in the era of globalization human resources are viewed as a source of competitive advantage. According to various management experts, there are different HR strategies, which are as follows: (i) building and guiding coalition; (ii) imaging the future; (iii) understanding current capabilities and identify the gap between business strategy and corporate strategy; (iv) creating a map of the whole management system; (v) modelling the dynamic of the vision; (vi) developing network into action. In view of that, Price [2] stated that a philosophy of people management is based on the belief that an organization gains competitive advantage by using its people effectively and efficiently. Also researcher Khandekar and Sharma mentioned that organizational learning influence strategic HRM to implement human resource practices that can positively impact the knowledge creation process and achieve the strategic goals of the firm [11],[12].

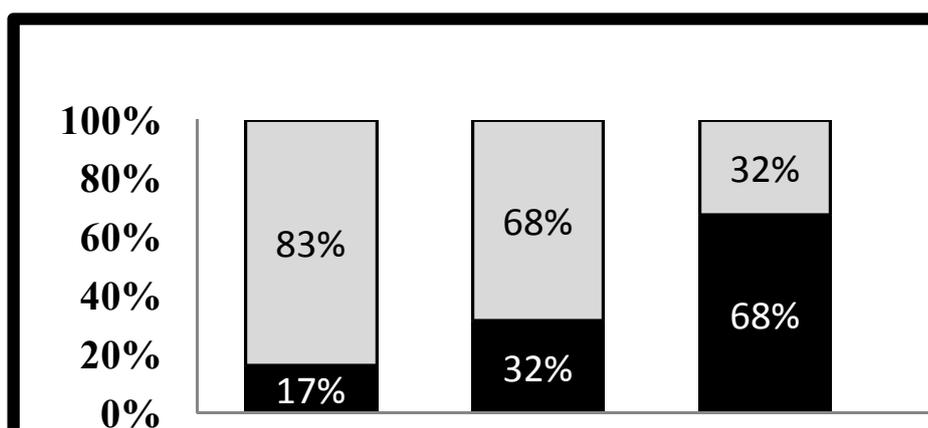


Fig. 1: Source of Market Value Shifted from Tangible Assets to Intangible Assets [15].

Then again, the strategies of HRM enable a firm to identify and to adopt the human capital initiatives, which are probable for enhancing the competitiveness and shareholders’ value [1],[13]. On the other hand, driving forces are the knowledge, skills, abilities and initiatives of human capital, i.e. the innovative perspective that measures the performance of an economic value added firm. Recent management experts believe that knowledge is one of the vital and major driving forces of HRM to keep pace with the change and

to identify the performance driven behaviour of a firm. Performance driven behaviour means a combination of performance orientation and professional excellence [14]. Nowadays, it has been observed that business world has shifted its focus from physical assets to knowledge and information i.e. human capital and Fig 1 is the reflection of the importance of HRM. Fig. 1 illustrates that how gradually the source of value has shifted from tangible to intangible assets in 2009, where the implied market value of intangible assets reached 81%. This is the most valuable asset that guides the organization to be in a correct path, to be on time, to meet the right person at right place [16]. In a nutshell, this paper shows the strategies of HRM that encourage high individual performance to lead enterprises and to meet competitive advantage [17].

2.2. HRM and Competitive Advantage

Currently, the question arise is HRM can enable firms to sustain their growth, maximize their economic opportunities, build the capability to meet the social goals in order to critically challenge the twenty-first century. It is necessary to see that in which way HRM can be a source of competitive advantage. Competitiveness refers to a firm’s ability to maintain and gain market share in its industry. It is related to firm’s effectiveness, which is determined by whether the firm satisfies the needs of stakeholders. In order to justify the proposed assumptions this paper represents the Fig. 2 with reference to the other researchers’ opinion concerning the importance of human resource management. Fig. 2 demonstrates that a firm can achieve competitive advantage only if it has adequate knowledge-based worker and if firm realize the significance of knowledge and necessity of knowledgeable employee. Generally, organizational knowledge consists of two broad categories: (1) knowledge that is explicit codified knowledge and (2) knowledge that is not codified but exists primarily within the minds of employees, tacit knowledge. Further, Fig.2 shows that the distinction between organizational explicit and tacit knowledge is the difference between “know-what” and “know-how” in which organizational “know-how” puts “know-what” into action. One can view tacit knowledge as being intuitive, difficult to express, gained through experience, and shared with others through interaction. Thus tacit knowledge is the information about work processes and products that individuals hold. Thus, HRM not only influence the human behaviour in an enterprise, but it also affects the crucial development of human resources as a source of competitive advantage. Researcher Stata, Dertouzos, Whipp and Pettigrew have argued that growing numbers of organizations realize the importance of human resources as a key to be innovative and successful enterprise [18-20].

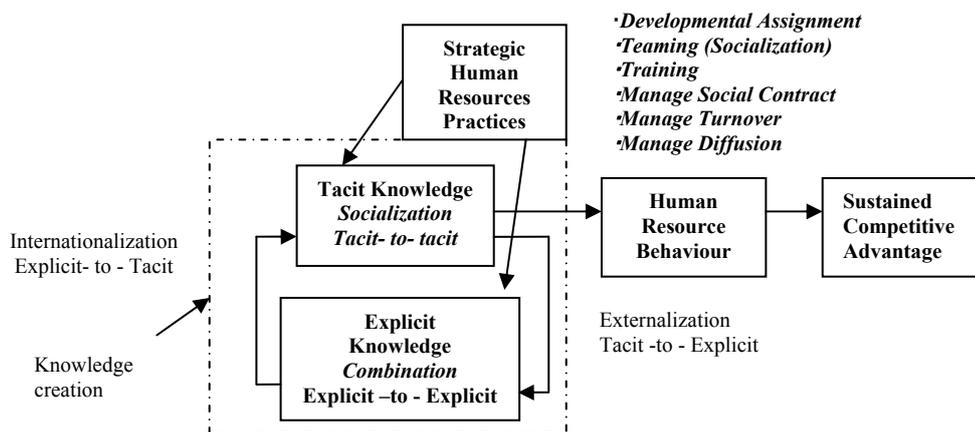


Fig.2: Human Resource Management as a Source of Sustained Competitive Advantage [23].

Evidently, HRM proves to be the key factor for increasing employees’ productivity, meaning that HR practices turn employees into resource of development, as well as into source of competitiveness. On the other hand, Porter[21] suggested that competitive advantage theory not only considers the factor endowments such as human resources, physical resources, knowledge resources, capital resources or the infrastructure inherited by organizations industries or regions, but it also emphasizes how these factors are being created and upgraded consistently [22].

Accordingly, Fitz-Enz also showed in his study that how HR systems contribute to a firm to improve its productivity, by three phases. While *phase one*- deals with human capital (where organizations make a plan

to achieve their goal and for that they acquire adequate knowledge, skills and abilities); *phase two*- deals with task and process design, business units (R&D sales, production, distribution service) and outputs (service, quality and productivity); *phase three*- deals with competitive differentiation (product price, product delivery and support) and enterprises goals (profit, market share, companies reputation etc.)[24].

Therefore, based on the illustration of Fig.2 it can be recommended that Proposition 1: suggests that socialization activities (such as teaming and developmental assignments) aid in developing tacit knowledge as a source of sustained competitive advantage. Proposition 2: suggests that formal training practices aid in developing explicit knowledge, indirectly leading to new tacit knowledge as a source of sustained competitive advantage. Proposition 3: suggests that appropriate human resource practices that elicit productive employee behaviour moderate the relationship between tacit knowledge and sustained competitive advantage [1], [25].

3. Conclusion

Finally, on the basis of empirical evidence this study suggests some recommendations for effective utilization of human resources in an organization that can act as a tool for enhancing the competitive advantage of the firms. Such as: (a) to increase the superiority of the firms' managers should provides a framework that not only offers performance measurements, but helps planners to identify what should be done and measured; (b) to get the best output management should provide better opportunities for their employees truly to implement and execute their modern strategies for business development; (c) to increase the excellence of the firm management should offer education and guidance about the development and advancement of their members; (d) to improve the firms' competitiveness managers should develop cooperation with other firms in order to enhance joint development as well as to reduce cultural divergences.

Moreover, it can be concluded that the key dimensions of the present business environment mainly concentrating on proper access of knowledge, skills and technology up gradation. Where, HRM is considered to be a key player. And people are the only repository of knowledge, i.e. the main resource. In the current climate of rapid technological change, it is becoming necessary for knowledge workers to be in a continuous learning mode for the betterment of the firm. These days, Government agencies often find difficulties to hire new technical workers and at the same time are showing a decline in training of existing employees. This is a leading indicator of 'brain drain' that must be reversed. So nowadays there is a tendency of modern firms to implement the competitive modern strategies and methods to expand the level of productivity and enhance the competitive advantage. In this circumstance, it is essential to mention that HRM is the backbone of any business, enabling firms to enhance their core competencies through interaction and pooling of information between individuals within an organization. It is assumed that the added value of this knowledge development process will lead the firms to achieve their competitive advantages through the transfer of specific individual knowledge to the collective knowledge, and vice versa.

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5. Dedication

The first author dedicated this paper to her only beloved son "Kanishka Binayak Saha".

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