



**Research Article**

**CREATING AND SUSTAINING CORPORATE ADVANTAGE – THE HUMAN RESOURCES WAY**

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**ABSTRACT**

Each organization has its own functional area of excellence or chief resource area based on which the strategies are formulated in the other areas as well. In this paper it is intuitively reasoned as to how corporate advantage can be created in the area of Human Resources as this area would not only hold maximum value for any organization in general but also be the one to hold critical importance and a present challenge before all executives dealing with all areas of corporate function viz. Marketing, Production, Operations, Maintenance, Information Technology, Finance, etc. To create a truly great corporate advantage, an organization has to work on core competencies: restructuring of corporate port-folios, creating a learning organization and a multitude of elements which formulate an organization viz. speed, quality, size etc. The basic theme presented in this paper is that Human Resource (HR) is not a function but a ‘total business solution’. Consequently, the onus of using HR as a strategic tool lies not merely with the HR manager but with the management as a whole.

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**INTRODUCTION**

In the competitive and dynamic business environment of the present era, it is essential for organizations to rise above the normal and strive towards achieving excellence in the various areas of management. Globalization of Indian economy is creating both opportunities and challenges for the industry and trade. With economic reforms, Indian industry is gradually becoming stronger and there is hope and excitement for developing new and more profitable international markets. At the same time in the wake of this development, some of the internationally well established and competitive companies which are entering into Indian market are putting pressure on Indian companies to cut costs, improve quality and modernize management systems. To create a truly great corporate advantage, an organization has to work on core competencies: restructuring of corporate port-folios, creating a learning organization and a multitude of elements which formulate an organization viz. speed, quality, size etc. Each organization has its own functional area of excellence or chief resource area based on which the strategies are formulated in the other areas as well. In this paper it is intuitively reasoned as to how corporate advantage can be created in the area of Human Resources as this area would not only hold maximum value for any organization in general but also be the one to hold critical importance and a present challenge before all executives dealing with all areas of corporate function viz.

Marketing, Production, Operations, Maintenance, Information Technology, Finance, etc. The basic theme presented in this paper is that Human Resource (HR) is not a function but a ‘total business solution’. Consequently, the onus of using HR as a strategic tool lies not merely with the HR manager but with the management as a whole. It implies that once the HR team comes out with a solution, the management as a whole has an on-going responsibility to own it up as its concern and communicate it across the length and breadth of the organization. However, unfortunately, a major obstacle to such a transformation of the HR function is the management itself. Corporate leaders have been demanding that they need a strategic HR function, but they often do not have an idea as to what it entails. Many still judge the function by its effectiveness in delivering administrative services and keeping the company out of trouble with regulatory agencies. They are unreceptive to radical ideas that enhance the strategic role of HR. Thus, the HR manager typically spends half of his time selling the concept to management who, in general, are indifferent to it.

**Conceptual Framework**

Business success is the ultimate reason for the existence of HR, or for that matter any organisational resource. Such business success is often explained by the competitive edge that an organisation has over the rest of its competitors. Michael Porter chooses to call it ‘competitive advantage’. We may also use the term ‘corporate advantage’. Such corporate advantage in turn comes by leveraging certain ‘Core

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Competencies’ that each organization has, be it in technology, finance, marketing or human resource.

**Background**

The issue of corporate advantage through HR has its roots in the paradigm shift that took place in the HR view as detailed below.

There are broadly three components in HR

- Knowledge generation processes (like identification of training needs, designing and administering training programmes etc.).
- Processes that move knowledge to the right place (like linking training programmes to placement, promotion etc.).
- Processes that help knowledge deliver output (like creating an enabling work environment, healthy organizational culture etc.).

Traditionally, HR was obsessed with the first two, the ultimate objective being business development. But of late, managements the world over have expanded the gamut of HR to include the third category of processes, which aims at a more important objective, namely, organization development.

Its traditional focus on micro-level individual outcomes like absenteeism rate, attrition rate etc., HR has shifted its focus to macro-level organisational effectiveness and business success.

In tune with the evolutionary dynamics, HR has grown from a subsistence living trying to reserve professional existence to a more meaningful living participating in value addition rather than justifying abstractly and conceptually about the morale and commitment of employees.

HR has transformed itself from a cost centre into an investment centre. HR hitherto was considered only as a cost centre. But since it develops and maintains a major component of the firm’s strategic infrastructure, namely, people, organizations have started viewing it as an investment centre.

**Other developments include**

- Transformation of HR from a necessary evil to an inevitable ingredient in business success.
- Transformation of the image of HR interventions as unnecessary meddling in other functions to that of their positive reinforcement.
- Shift from employee/personnel orientation to family orientation – focus on organization as a family and bondages beyond contractual obligations.

Given this context of paradigm shift in the HR view, the issue of creating corporate advantage through HR revolves around the linkages between HR and business performance. While it has to be admitted that as of now establishing a direct relationship between HR and business results is hazy, if not fuzzy, it needs to be equally admitted that HR does create corporate advantage. Infact, there is evidence to prove that HR adds value. The different types of corporate advantage accruing to an organization under different HR strategies have been given in the table below:

It is a fairly accepted model now that the ultimate objective of any business is the maximization of the value of its

HR Strategy	Corporate Advantage
Inducement – Based on the concept of motivation through rewards and punishment	Cost leadership
Investment – Placing a premium on employee development and leveraging it. Dominant values are encouraging creativity and innovation, autonomy and initiative	Product differentiation
Involvement – Focussing on employee commitment, team building etc.	Quality, continuous innovation etc.

shareholders. Consequently, different functional areas of the business should duly contribute to the value maximization. HR is no exception, though in its case, it is very difficult to ascertain such value addition. The linkages between HR initiatives and organizational effectiveness are not easily demonstrable due to the influence of several other variables acting simultaneously. It is naïve to claim that the increase in market value of an organization is completely attributable to the HR practices being followed by the organization. Infact, even a casual relationship is hard to establish without rigorous statistical analysis. While writers on HR assumed a relationship, relatively little evidence exists to actually prove it. HR is today at crossroads, being increasingly under fire to justify itself. There is a quantum jump from the premise that HR axiomatically adds value to a situation where HR has to demonstrate and prove in specific terms that it actually adds value. Such a crisis is being faced even by other functions. But HR is less prepared to meet it. It is an unfortunate sign that conceptual linkages between HR and business performance are not yet well developed to capture the impact of HR. Nevertheless, viewed in the right perspective, the crisis is actually an unprecedented opportunity for HR to prove itself, redefine its boundaries, position itself for higher business leverage and refocus itself as a strategic asset. We need to understand that HR is in crisis today because its traditional role did not create value for the organization. And there are reasons why it did not create value or provide corporate advantage.

First, some organizations, in fact most, introduced HR processes in a mechanical way and for cosmetic purposes. Scant attention was paid to issues like suitability and relevance of HR initiatives to the organization, the preparedness required, the methods and implementation and evaluation, creation of the climate for sustaining the initiatives and a number of such critical factors. Further, HR practices were blindly copied based on benchmarking competitor firms rather than developing custom-made HR systems configured to the particular business needs of the organisation and aligned with business strategies. If a HR system is created simply by benchmarking and by copying ‘the best practices’, it could be easily replicated by competitors and therefore not likely to provide a source of sustainable corporate advantage.

Second, HR activity was never carried out as a system. Whereas, the clue to creating corporate advantage through HR lies in managing the subtle interactions between the various components of HR system. Consequently, most firms ended up creating ‘deadly combinations’ – a situation where an HR practice in isolation makes sense but when evaluated within the context of the larger HR system will prove to be counter-productive. For instance, a compensation system that does not provide meaningful distinction between high and low performers, one which is not conducive for building teams etc.

Third, though the objectives of HR have come out evidently over the years – growth and development of the employees as ‘total’ persons – the means to achieve these objectives are not yet very sound, scientific, comprehensive and foolproof. Therefore, it is clear that for HR to create and sustain corporate advantage, it needs

#### ***A Strategic perspective***

A strategic perspective of HR involves that business priorities drive the development of HR systems. The effort should be towards creating distinctive HR practices, which help to create unique competencies. HR systems will have impact in the bottom line only when these are embedded in the management infrastructure. Real value creation will occur from HR only when it is aligned to business needs. Because, in HR there is no ‘common solution’ or ‘the right answer’. An inordinate focus on benchmarking and best practices will be counter-productive as it diverts managerial effort from the difficult and time-consuming job of developing an internally coherent and strategically business-aligned HR system.

Secondly, every business has certain objectives in terms of market share, profits, productivity, social responsibility etc. The HR manager should share these business concerns at large rather than cocooning himself to a smaller role. It enables him to gear up his activities to the ever-changing demands of business. For instance, the organization may be expanding into areas, which it may have never thought of. Unless the HR manager shares this concern, he will never be able to provide the enabling internal environment required for business expansion. As long as he keeps himself aloof from other business processes, he will be catering only to the current organizational needs and not the future ones. It is also doubtful if he will be able to cater to at least the current needs in totality.

#### ***A Systems Perspective***

In contrast to the functional view of HR, a systems perspective emphasizes interrelationships and their synergic value. Firms have to look for powerful connections where individual HR practices act as mutually reinforcing elements and are in harmony with each other to synergize the whole system. Given the adoption of these two perspectives, we shall look into some of the areas in which HR can create corporate advantage.

#### ***Managing Change***

One of the best sources of creating corporate advantage through HR is its role in change management as a catalyst and change agent. Because, the greatest competitive challenge that organizations face today is adjusting to, indeed embracing, and continuous change. Now organizations have to perceive change from a totally new perspective – change which was an ‘event’ in the past is now a ‘process’. They must be able to learn rapidly and continuously, innovate ceaselessly and take on new strategic imperatives faster and more comfortably than the competitors. As Tom Peters puts it, managers must take chaos as given and learn to thrive on it. Especially, trends like liberalization and globalization demand that organizations increase their ability to manage diversity, complexity and ambiguity. But such demands are not likely to be met unless HR dons upon an activist role and leads the change – change not per se – but proactive, continuous and radical change. The

way change is handled makes the difference between the success and failure for the organization.

#### ***Managing Culture***

In the increasingly complex business environment, incremental adjustments and defensive manoeuvring are insufficient. Organizations which will sustain themselves are those that drive the basic facets of culture building uniformly across the organization; organizations that cultivate their individual identities and have values and beliefs to pass along and not just products. For instance, an organization might have introduced the most advanced technology available in the market. But its ability to create corporate advantage out of it will depend on

- Employees’ willingness to use the new technology
- The way it will change the manner in which employees work and relate to one another.

Thus, all transformation is basically a people issue and, therefore, has to be handled with care. Further, the issue of culture also arises in the context of globalization – how to integrate the cross cultural differences into a uniform organizational culture while respecting and accommodating the diversities.

One of the dilemmas facing the HR manager is how to balance the seemingly contradictory phenomena of culture and change. Culture is a sustained pattern of behavior where as change involves an unsettling pattern of behavior. The answer lies in transforming culture as a vehicle of change – making responsiveness to change intrinsic to culture. Rightly speaking, all change we talk about is basically a change in culture. Infact, while culture is basically an evolutionary change, each organization today is looking forward for a ‘Cultural Revolution’.

#### ***Learning Organization***

HR spends enormous amounts of time and money in developmental programmes intended to develop management and leadership skills when the evidence has long been available that these programmes do not readily translate into changed behavior on the job. Even the most motivated and skillful individuals coming out of the programmes are too weak to overcome the system that opposes the new patterns. Because the people who have undergone training might have changed but the bulk of the organizations remain the same. The solution lies in building a learning organization where a philosophy of information and knowledge sharing among the employees is embedded within the culture of the organization. For instance, inter-unit transfer of technology and practices.

#### ***Organizational Restructuring***

HR has a role even in designing organizational structure because it basically involves streamlining of human behavior. The HR manager, therefore, has to be an expert in organizational design. He has to ensure that the structure is ever adaptable to changing competitive environment, and that the employees do not get lost in the structure and be dominated by it.

#### ***Internal Customer Satisfaction***

HR creates value for its employees (by way of enhancing their competencies, attitudes etc) who in turn are expected to create value for customers and owners. Internal customer satisfaction

is, therefore, the key to business performance. We will never achieve total customer satisfaction without a much higher level of employee satisfaction". The HR manager should, therefore, play the role of an internal consultant continuously, counseling his internal customers.

**Other areas where HR provides avenues for creating corporate advantage are**

- Managing the emotional intelligence of the employees.
- Building critical organizational capabilities.
- Building reciprocal psychological commitment between firm and employees. Research evidence points out those commitment systems have higher productivity than those with control systems.
- Identifying and solving the human elements of important business problems.
- Grooming leaders, As Bill Hewlett, co-founder of Hewlett Packard puts it, "The Role of personnel is to enhance the quality of management". Having looked at the whole philosophy of creating corporate advantage through HR, we can definitely come to certain conclusions.

First, traditional sources of competitive advantage such as patents, economies of scale, access to capital, market regulation have become less important in the current business environment than they have been in the past. Because, in a dynamic global economy that demands innovation, speed, low costs, adaptability etc, these traditional sources do not differentiate the firms the way they once did. Instead the core competencies and capabilities of employees that help develop world class products provide quality customer services etc. are relatively more critical.

Second, it is very difficult to emulate or copy the advantage that an organization gains through its people. Technology, financial systems and practices, marketing strategies etc. may be copied and the advantage of the competitors neutralized but the culture of an organization, employee commitment etc. cannot be borrowed easily. Therefore, an organization resting its corporate advantage on human resources will sustain it for a longer period. Third, corporate advantage created through HR is less prone to environmental disturbances than one created through other functions. The sources building and demolishing the advantage are mostly internal. Fourth, human capital, being largely invisible, does not appear on the firm's balance sheet. Thus, a firm's major competitive tool gets cloaked in order not to attract the awe of the competitors.

Fifth, as one of the underdeveloped strategic levers available to corporate leaders, HR offers vast potential. Finally, when markets start dipping, finances start getting squeezed and all other environment variables begin to work against the organisation, it is the people to whom the organisation looks as the final bet. Hence, HR is the ultimate source of corporate advantage that an organisation can bank upon.

**CONCLUSION**

The borderless world of today has opened up new vistas of development and business. At the same time, the new business environment has brought in its wake the challenge of competition. It is in this context that there is a compulsion for organizations to become excellent by using their core competence and corporate advantage. However one looks at it, human resource stands out as the major focus of this corporate advantage. Leadership, vision, empowerment, human resource development, innovation and high quality of work life are the linking pins of this corporate advantage. Ultimately, it is the people that count. Machines and technology cannot run themselves. However time consuming, however difficult it may seem, organisations must focus their energies on developing their most important asset – their people – if they have any intention of growing in the new era.

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