



Strategic Human Resource Management : Source of Competitive Advantage

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ABSTRACT

Liberalization and industrialization have brought a revolutionary change in the area of business world which has preceded various challenges in the area of human resource management (HRM). Economy has shifted from command to market driven, from domestic to global market, from monopoly to competition, from sheltered market to competitive market. These shifts push HR activities to adopt different approach. All those activities affecting the behavior of the individuals in their efforts to formulate and implement the strategic need of the business are Strategic human resource management (SHRM). Scholars suggest that there is a great correlation between SHRM and firm performance. This article describes that in the knowledge economy human resource (HR) become the strategic partner at an enterprise. People are the greatest asset in any organization, strategically management of people having right attitude is key to success for the organizations. Best HR practices and policies are core of the organization to attract the best talent in the global arena.

KEYWORDS

Strategic human resource management, competitive advantage, firm performance, challenges for human resource.

INTRODUCTION:

In the era of globalization and dynamic business environment, organizations especially those operating across the national boundaries are facing various challenges. Among all the resources only human resources of an organization are distinct from each other. People and how they are managed are becoming more important. So there is a need to manage human resource effectively to gain competitive advantage in the global market place. Recognizing that the basis for competitive advantage has changed from physical resource to human resource, now it becomes essential to develop a different frame of reference for considering issues of human resource management and strategy.

Link between investment in human resource and firm performance is gaining increasing support both in organizations and among scholars. Researchers such as Huselid (1995), MacDuffie (1995), Delery and Doty (1996), and Guthrie (2000) have published empirical studies showing a statistically significant linkage between HRM practices and some measures of organizational performance. Richard and Johnson (2001) are among the many who argue that HRM strategies impact on an organization's overall success, and that the effective utilization of human resources can give an organization a competitive advantage in global business environment.

EMERGENCE OF SHRM:

The business function of HRM was largely undeveloped until the mid 1960's, the idea that improving competitive advantage could be achieved through the management of human assets had traced on the last decades of twentieth century. A consensus has emerged among scholars and practitioners alike that of the business environment have become more competitive than in the past because of the globalization (Ansoff 1991, Hamel & Prahalad 1996).

In order to survive in this new era, businesses have to focus even harder on their competitive strengths, so as to develop appropriate long term strategies. Old HR practices and policies that have evolved over time in relatively stable environment context are inadequate to meet the challenges posed by the complex and dynamic business environments of today.

The issue of how to encounter the dynamic environmental forces falls in the domain of strategic management research. Broadly strategic management attempts to match an organization with its environment. Human resource manage-

ment has to mix with strategic management to cope with the dynamic business environment. There is a need to manage human resource strategically to meet the goals of the organization in the era of globalization. This gives a base to emergence of strategic human resource management. To deal with the new challenges human resource department has to develop new policies and practices matching with the business strategy and business objectives, known as HR strategy.

TRENDS ENHANCING THE IMPORTANCE OF SHRM

As we said at the outset of this paper, there is an increasing realization that the manner in which organizations conduct their HR activities will help create and sustain a competitive advantage. The contemporary trends and challenges in the business environment necessitate that even greater attention be given to the human resources of the organization. HR can play a major role in creating and sustaining a competitive advantage through people in following emerging trends:

- 1. The increased globalization of the economy:** there is no question that the increasing globalization of most of the world's economies will affect HRM. It is predicted that most of the largest US companies employ more workers from those countries where labour is cheap. The process of HRM is more complicated; of course, US workers will resist this trend through union. Globalization also should foster greater competition and more productivity. One important reason for the recent increased interest in HRM is the perceived connection between HRM expertise and productivity.
- 2. Technological changes and challenges:** the second trend is the rate of change in technology. More organizations are now evaluating their human resources and labour costs in the context of available technologies, based on theory that products and services can be delivered more effectively through an optimal combination of people, software and equipment.
- 3. The changing business environment:** as companies focus on their core competencies, they outsource other work, use temporary or leased employees or independent contractors to perform specific projects even at the professional level and replace personnel with new technology. In this changing business environment human resources have to be innovative and responsive to the trend.
- 4. Increase in litigation related to HRM:** another impor-

tant trend affecting the status of HRM is the proliferation of regulations and lawsuits related to personnel decisions. Organizations are bound by a plethora of federal, state and local laws, regulations, executive orders and rules that have an impact on virtually every type of personnel decision.

5. Changing characteristics of the workforce: several trends regarding the future of the workforce underscore the challenges to and the importance of the human resource function. Compared to 10 years ago, workers are more ethnically diverse, more educated, and more cynical towards work and organizations. The composition of workforce is changing drastically and these changes are affecting HRM policies and practices.

SHRM - A TOOL OF COMPETITIVE ADVANTAGE:

Past researches suggest that an organization's employees can be a source for sustained competitive advantage and can determine the ultimate success of their organization (Pfeffer 1994). Among various factors of production which are used in an organization, human resource is the most important. This is because the efficient use of physical resources (land, materials and machinery) ultimately depends on how the human factor is put to good use on various operations. Transforming human resource management processes from their traditional style focus to a more strategic business contribution is a key to improving performance of individuals and the organization.

"Our people are our greatest resource" is one of the statements most commonly found in corporate annual reports. It is also one of the most important assets in the organization, without the right people in the right position no strategy, however well formulated in other respects, is likely to succeed. This recognition has led to the recent development of the field of SHRM.

All the activities affecting the behavior of individuals in their efforts to formulate and implement the strategic need of the business are defined as strategic human resource management (Schuler 1992). SHRM is an approach to making decisions on the intentions and plans of the organization concerning the employment relationship and the business strategy.

The objective of SHRM is to develop a manpower plan that matches people with company's strategic requirement. SHRM can be discussed under following heads:

1. Strategic perspective in Human Resource Management: Rapid changes in business environment, shift focus from manufacturing to service, from brawn work to brain work, from individual brilliance to group excellence, from restricted market to global market, from financial capital to intellectual capital, the list is endless. In this changing external environment organizations have to take strategic measures to cope with it. Now human resource's main task is to play a 'Strategic partner' role in the business vision of the organization. Thus human resource management has to be developed strategically and make a strategic perspective that HR strategy should integrate with business strategy.



Fig. Strategic Perspective of Human Resource Management

2. Human Resource as a Competitive Advantage: Management Guru (Master) 'Peter Drucker' felt that whether the new economy will emerge or not, the new society has already emerged, as for the 21st century workforce is crucial input for business success because they are the strategic resource for the achievement of competitive advantage. Human resource is ideally at the core of the management and their skills, knowledge, positive attitude towards organization are rare. Now scarcity of resource has shifted from physical resource to human resource. The resource-based view (RBV) suggest that Human resource system make a contribution in sustaining competitive advantage through facilitating and development of their competencies that have value and can generate exceptional organizational knowledge (Reed and DeFillip.I, 1990, Barney 1992). Thus investments in human resource are latent reserve of competitive advantage.

3. Linkage between Business Strategy and HR Strategy:

"In the absence of HR strategy, clearly linked with business strategy, HRM programs may easily lack direction, clarity, coherence and critical marks to add real value" (Tony Grundy). HR practices, programs, policies and activities parallel with the organization's overall strategy, to obtain the consistency with the mission of the organization are HR strategies. Several scholars (including Tichy 1982) found close relationship between business strategy and human resource management in the success of the organization. Ninger (1982) has suggested that human resource planning has to be carried out parallel to the strategic business planning, it converts business strategy into competitive business strategy and competitive strategy influences the organization's position among competitors.

CONCLUSION:

Managing human resource is a key strategic challenge in new business environment and people resist the change. SHRM is more involved in transformations using change management techniques rather than strictly focusing on the transactional activities. SHRM plays a more consultative role in organization in which HR professionals help organizations to achieve goals within the larger organization's HR system.

Competitive advantage generated from the valuable, rare, imperfectly imitable and non substitutable human resource is long lasting. Competitors can easily duplicate competitive advantage obtained via better technology and products but it is hard to duplicate competitive advantage gained through strategically management of people.

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