

**A THEORETICAL FRAMEWORK FOR
DETERMINING THE RELATIONSHIP BETWEEN
COMPETITIVE STRATEGIES AND HUMAN
RESOURCE MANAGEMENT PRACTICES**

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Abstract

Strategic human resources management has gained more importance after the realization of the critical role of human resources to gain competitive advantage for organizations. According to the strategic human resources management view; organizations should align and link their competitive strategies with the HR functions of the organization. Each competitive strategy requires different employee skills and HR functions. All the functions of HR should be developed according to the goals of the organization and should be integrated with the strategies of the organization. By that way, it will be possible to pursue the strategies effectively and increase the performance of the organization and employees. In this paper, firstly strategic human resources management concept is described briefly. Then, competitive strategies are explained and the importance of aligning HR functions and competitive strategies are discussed.

REKABET STRATEJİLERİ İLE İNSAN KAYNAKLARI YÖNETİMİ UYGULAMALARI ARAINDAKİ İLİŞKİYİ BELİRLEMeye YÖNELİK TEORİK BİR ÇERÇEVE

Özetçe

İnsan kaynağının işletmeler için en değerli rekabet avantajı kaynağı olduğunun anlaşılmasıyla beraber, stratejik insan kaynakları yönetimi de giderek önem kazanmıştır. Stratejik İ.K.Y. bakış açısına göre; işletmeler izledikleri rekabet stratejileri ile insan kaynakları uygulamaları arasında bağlantı kurmalıdır. Her rekabet stratejisi kendine özgü farklı çalışan niteliklerini ve İ.K. uygulamalarını gerektirmektedir. Tüm İ.K. fonksiyonları ve uygulamaları, işletmenin stratejik amaçları ve hedeflerine göre düzenlenerek, rekabet stratejileri ile entegre edilmelidir. Böylece hem rekabet stratejilerinin başarı ile yürütülmesi mümkün olacak hem de organizasyon ve çalışan performansı artırılacaktır. Bu çalışma kapsamında, öncelikle stratejik insan kaynakları yönetimi kavramı kısaca açıklanmıştır. Daha sonra ise rekabet stratejileri hakkında bilgi verilmiş ve bu stratejiler ile İ.K. uygulamalarını uyumlaştırmanın öneminden bahsedilmiştir.

Keywords: Strategic Human Resources Management, Competitive Advantage, Competitive Strategies.

Anahtar Kelimeler: Stratejik İnsan Kaynakları Yönetimi, Rekabet Stratejileri, Rekabet Stratejileri.

1. INTRODUCTION

The strategic dimension of human resource management started to receive specific attention from researches at the end of the 1970s with the influence of two basic changes in the literature: first, the shift from the old personnel administration approach to the more modern concept of human resources and second, the reorientation of generic of generic strategic models to internal aspects of the organization [1]. A typical way to approach strategic HRM is to define it as “bridging” the concept of business strategy and HRM. Strategic HRM focuses on the point that there should be a link between a firm’s strategy and the utilization of its human resources.

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According to this perspective, people management can be a key source of sustained competitive advantage [2]. The main rationale for strategic HRM thinking is that by integrating HRM with the business strategy, rather than human resources strategies being a separate set of priorities, employees will be managed more effectively, organizational performance will improve and therefore business success will follow. Strategic HRM has a clear focus on implementing strategic change and growing the skill base of the organization to ensure that the organization can compete effectively in the future. Strategic human resources departments are future oriented and operate in a manner consistent with the overall business plan in the organization [3].

HRM can contribute to the strategies and strategic planning process of the organization in different ways. The HRM functions like performance evaluation, human resource planning, employee selection, training and wage management should be designed according to the strategic plans of the organization. Today, most of the organizations prefer to integrate their HRM systems with their strategy implementation process [4]. Human resource planners have started to learn the techniques of strategic planning and have assumed a more proactive stance in promoting strategic thinking in the human resources area and have extended the personnel function beyond the limits of its traditional activities [5]. Nowadays, it is a common belief in both the business and the academic world that the human resources of an organization can be a source of competitive advantage, provided that the policies for managing people are integrated with strategic business planning [6].

2. COMPETITIVE STRATEGIES

Strategy can be formulated on three levels as; *corporate level, business level and functional level*. Business level strategies are the primary context of industry rivalry and competitive advantage. A number of typologies have been developed to describe how firms compete in an industry. The typology developed by Michael Porter is arguably the best

known and has been widely used by both business policy and industrial relations researches [7].

Porter argues that there are two successful generic business strategies that firms may use to achieve sustainable competitive advantage over other firms in a given industry. He suggests that firms may compete either by becoming the lowest cost producer of a given product or service by “*Cost Leadership*” strategy or differentiating themselves from other competitors by creating a unique value with “*Differentiation*” strategy. The differentiation and cost leadership strategies seek competitive advantage in a broad range of market or industry segments. By contrast, the differentiation focus and cost focus strategies are adopted in a narrow market or industry. These generic strategies are defined below briefly [8]:

- ***Cost Leadership Strategy:*** The objective of this strategy is to become the lowest-cost producer in the industry. Many market segments in the industry are supplied with the emphasis placed minimizing costs. If the achieved selling price can at least equal (or near) the average for the market, then the lowest-cost producer will enjoy the best profits. This strategy is usually associated with large-scale businesses offering "standard" products with relatively little differentiation that are perfectly acceptable to the majority of customers. Occasionally, a low-cost leader will also discount its product to maximize sales, particularly if it has a significant cost advantage over the competition and, in doing so, it can further increase its market share.

- ***Differentiation Strategy:*** A firm is considered to pursue a differentiation strategy when it offers a product/service that is perceived to be unique along several dimensions that are valued by the customers. This strategy involves selecting one or more criteria used by buyers in a market - and then positioning the business uniquely to meet those criteria. This strategy is usually associated with charging a premium price for the product - often to reflect the higher production costs and extra value-added features provided for the consumer.

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3. THE RELATIONSHIP BETWEEN COMPETITIVE STRATEGIES AND HUMAN RESOURCE MANAGEMENT PRACTICES

The fundamental strategic problem of the organizations is the viability. To be viable, a firm needs an appropriate set of goals and a relevant set of human and non-human resources. This obviously means that without certain kinds of human capability, firms are simply not viable [9]. A primary way to achieve integration is to identify and address people related issues in the normal course of managing the business and as part of the strategic planning process. Human resource staff and operating managers should work together as partners in defining business issues and their human resource implications. Business unit managers and HR managers should work together in order to develop long term strategies [10].

The integration of human resources with the strategic management process is shown below in Table 1.

Table 1. Integration of Human Resources in Strategic Management

STRATEGIC ANALYSIS	STRATEGY FORMULATION	STRATEGY IMPLEMENTATION
Establish the context for strategy:	Clarify performance expectations:	Implement processes to achieve results:
<ul style="list-style-type: none"> • Business context • Company strengths and weaknesses • External opportunities and threats • Sources of competitive advantage • Strategic issues 	<ul style="list-style-type: none"> • Values and principles • Business mission and vision • Objectives and priorities • Action plans • Resource allocation 	<ul style="list-style-type: none"> • Organizational change • Performance and rewards • Strategic staffing • Learning and development • Employee relations

STRATEGIC ANALYSIS	STRATEGY FORMULATION	STRATEGY IMPLEMENTATION
Identify people-related business issues	Define human resource strategies, objectives and action plans	Implement human resource management processes

Reference: James W. Walker, "Integrating the Human Resource Function with the Business", Human Resource Planning, 1994, Vol.17, No.2, p. 62.

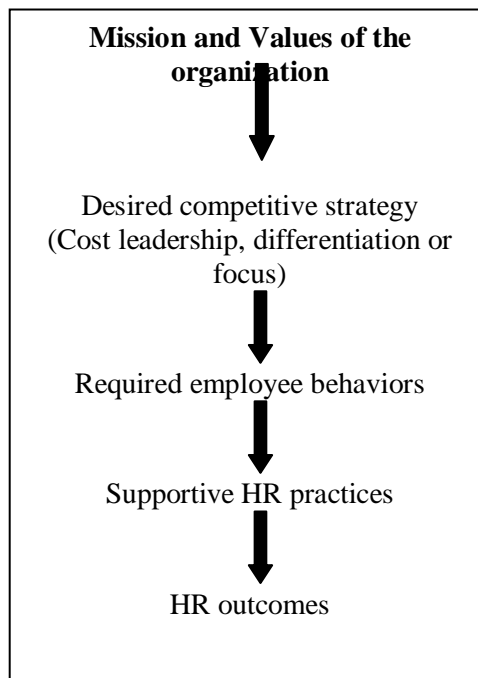
As seen in Table 1, HRM should perform in a consistent way with the strategic management team during this process. The strategic management process consists of three main phases. Firstly, organizations should monitor their environment in order to see the opportunities or threats and then make internal analysis to find out the strengths and weaknesses of the organization. By that way, organizations can determine the area which it can create competitive advantage. All these phases are evaluated in this process. Another important issue that should be taken into account in this phase is, designing the people related business issues. In the second phase; organizations set their mission, vision and goals according to their positions which they have stated in the first phase and design action plans by allocating their resources. In this phase, the human resources of the organization are designed to support the action plans of the organization and should be aligned with the goals of the organization. In the last phase, strategies are implemented in order to reach the goals. The procedures, systems and essential roles of the human resources are defined. People who have the necessary skills and abilities should be recruited. The HR system that is designed and aligned according to the strategies of the organization is one of the key factors for the organization to be successful.

Human resources strategies should support the organization to reach its competitive goals by recruiting, training and retaining the employees that have the essential ability and motivation consistent with the strategy of the organization [11]. Linking HR practices to competitive strategy is shown below in Table 2. The model argues that business performance will improve when HR practices mutually reinforce the firm's choice of competitive strategy. Human resource activities in a firm must directly support

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competitive strategies. Human resource processes are central to the implementation of strategic business change. Recruiting, selection, assignment and other staffing activities are crucial in matching available resources with required staffing levels and mix of capabilities [12].

Table 2. Linking HR Practices to Competitive Strategy



Reference: Boxall, Peter ve John Purcell. 2003. *Strategy and Human Resource Management*, Palgrave Macmillan: New York, s. 53.

Porter noted that implementing competitive strategies successfully requires different skills and resources [13]. Differentiation and cost leadership strategies are thought to require different HR practices and policies in order to elicit particular sets of employee attitudes and behaviors to foster success [14]. Different human resource practices are needed to support different competitive strategies [15]. Human resources practices are part of the systems and processes that are expected to be consistent with

strategy. Presumably, HR policies influence employee behavior. If different employee behaviours are required to implement different strategies, then HR policies should systematically vary with organizational strategy [16].

3.1. The Relationship Between Differentiation Strategy and Human Resource Management Practices

The main source of differentiation is product/service innovation. Organizations pursuing differentiation through innovation need to be innovative and adapt to their environment. Because the imperative for an organization pursuing an innovation strategy is to be the most unique producer, conditions for innovation must be created. These conditions can be verified. For firms pursuing a competitive strategy of differentiation based on innovation, the profile of employees role behaviors include; high degree of creative behavior, long term focus, relatively high level of cooperative and independent behavior, moderate degree of concern for quality, greater degree of risk taking and high tolerance of ambiguity [16].

There are several studies which can be cited as offering some support for the argument that firms try to relate a variety of HR practices to their competitive strategy. In a study of 200 Spanish firms Sanz-Valle et al. (1999) find that those with a differentiation strategy provide more training and greater opportunities for employee participation than those cost leadership as Schuler and Jackson's model predicts. They also find that these firms pay better than those focusing on cost [17].

To be successful, firms following this strategy must be flexible enough to quickly shift production and organizational resources to meet changing markets and customer demands. Under these conditions, it is proposed that employees must have the skill and training to perform a variety of different tasks. Firms pursuing this strategy should offer skilled employees high levels of involvement, autonomy, general training and high wages to motivate and retain their qualified employees [18]. This strategy requires a high level of employee involvement in order to offer a unique value superior to that of the other products or services. These employees

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need to be creative; to be cooperative with one another; to be able to pursue long term objectives, to devote proper consideration to the quality of products and services provided; to be able to take risks and to cope successfully with ambiguity and uncertainty [19].

Performance appraisals that are more likely to reflect longer term and group based achievements; compensation systems that emphasize internal equity rather than external or market based equity; pay rates that allow employees to be stockholders and have more freedom to choose the mix of components like salary, bonus, stock options should be preferred in the firms pursuing differentiation strategy [20]. These firms need to search for high levels of creative, risk oriented and cooperative behavior. HR practices need to emphasize selecting high skilled individuals, more discretion, using minimal controls, making greater investment in human resources, providing more resources for experimentation, allowing and even rewarding occasional failure and appraising performance for long run implications [21].

3.2. The Relationship Between Cost Leadership Strategy And Human Resource Management Practices

Firms following the cost leadership strategy are expected to involve producing relatively few commodity type products at the lowest cost so it is possible for firms to break down the production process into relatively narrow, well specified job tasks. First, the skill level requirements of employees needed to perform these tasks are reduced, which reduces wage levels needed to attract and retain qualified employees. Also, training costs for production employees are reduced. The combination of low skill requirements and low training investment reduces the costs of turnover for these firms. Production employees become more easily replaceable [22].

It is proposed that under these conditions, management's incentive and need to engage in commitment-enhancement industrial relations activities, such as employee involvement, information sharing, job security guarantees and extensive employee benefits is greatly reduced. Firms that

use a cost leadership must control and minimize expenses and strive for greater economies of scale. Efficiency is important for firms to succeed. Behavior control increases predictability by routinizing the transformation process. This includes HRM practices like standard operating procedures, behavioral performance appraisal, close supervision and feedback [23].

In attempting to gain competitive advantage by pursuing a strategy of cost leadership, key human resource practice choices include; relatively fixed job descriptions, short term and result oriented performance appraisals, close monitoring and minimal levels of employee training and development [20].

4. CONCLUSION

Parallel with the development of strategic human resources management, human as an inimitable resource has gained more importance as a key factor of competitive advantage. Strategic human resources management is mainly based on aligning the HR functions with the strategies of the organization. The HR departments of organizations should contribute the process of determining the strategies with the other departments and top management by playing a strategic role. HR functions and practices should be designed consistently with the strategies and also support the needs of the organization by recruiting, training and retaining the employees that have the essential skills and abilities for the strategies. All the HR processes should be aligned with the competitive strategies of the organization. Each competitive strategy needs different employee skills and HR practices. In order to create competitive advantage, organizations should design their HR practices according to the various needs of these competitive strategies. When designing and managing the HR functions like recruitment, training and development, performance appraisal, career management and compensation, the management should consider the objectives and necessities of the competitive strategies.

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