Organizational Capability as a Competitive Advantage: Human Resource Professionals as Strategic Partners

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Executive Summary

The increasingly turbulent environment of the last decade has worked to focus executives' attentions on the need to aggressively seek out and exploit competitive advantages as the means to organizational survival. In today's fast-changing world economy, however, traditional competitive mechanisms (e.g., pricing, technological advantage, unique product) are becoming less effective as competitors meet or copy each corporate initiative.

Transitions in American Business

The decade of the 1980's may be remembered as the decade of transition in business (Thurrow, 1981). For the economy as a whole, pressures for transition have grown as indicated by the following data:

- The federal budget deficit has ballooned from $75 Billion in 1981 to over $220 Billion in 1986 (U.S. Commerce Department).
- Merchandise trade balance imbalance has worsened from $-25 Billion in 1981 to $-140 Billion in 1986, indicating the increasing role in imports relative to exports in the U.S. economy (U.S., Office of Management & Budget).
- Direct foreign investment in the U.S. has grown from $82.9 Billion in 1980 to $182.9 Billion in 1985, indicating the increased role of global competitors in U.S. markets (U.S., Department of Commerce, Fortune, December 22, 1986).
- Business failures per 10,000 concerns has risen from 42 per year in 1980 to 190 in 1985; bankruptcy petitions filed have increased dramatically in the 1980's compared to previous time periods:

1960-64:	147
1965-69:	192
1970-74:	188
1975-79:	229
1980-84:	345

(source: Statistical Abstract of the United States, 1986)

- National income originating in manufacturing has continued to drop to an all time low of 22% in 1984 while the gap between employees in service related (74%) and goods related (26%) has increased to an all time high (Statistical Abstract of the United States, 1986).

- Total value of takeovers (mergers and acquisitions) has increased from $30 Billion in 1980 to over $170 Billion in 1986 (deals over $1 million) (Mergers and Acquisitions).

These national and economic conditions expose significant and dramatic change throughout the U.S. economy through the first half of the 1980's (Abernathy, et. al., 1981; Reich, 1983; Lund & Hansen, 1986).

These underlying economic conditions have exposed many industries to enormous transitions. Bank failures have risen from 10 per year in 1980 to over 140 in 1986. Over 200 airlines have been merged or sold since 1978 to respond to the competitive pressures of deregulation; deregulation has equally affected trucking, telecommunications, and oil industries. The domestic steel industry has reduced significantly in size due to foreign pressures. Real estate and development has depended on foreign investment which has grown significantly (e.g., Japanese investment in American real estate has expanded from almost 0 in 1980 to $6 Billion in 1986). The automotive industry has been increasingly bombarded by imports which have risen to over 25% of the U.S. domestic auto sales. Even agriculture has undergone dramatic change with the total number of farmers being reduced from 1.6 million to 1.3 million with further reductions expected.

FIGURE 1
Restructuring Cutbacks

COMPANY	EMPLOYEES AFFECTED	PERCENT OF WORK FORCE
Apple Computer	1,200	20%
ARCO	6,000	18
AT&T	35,251	10
CBS	1,175	14
Cessna Aircraft	1,000	21
Combustion Engineering	7,300	20
Du Pont	12,000	11
Eastman Kodak	13,700	10
Exxon	6,900	17
General Electric	26,000	8
Greyhound	3,000	21
Intel	2,600	10
Polaroid	750	5
Union Carbide	8,000	8
Wang Laboratories	3,200	10

[Source, *Business Week*, August 4, 1986]

These industry transitions have translated to many firms dramatically transforming their businesses. As indicated in Figure 1, many companies have made large reductions in work force to respond to the economic and industrial pressures for change. In addition to these obvious labor cutbacks, firms have also reoriented the strategic direction of their firms. General Electric, for example, has shifted from core industries (e.g., appliances, transformers, etc.) to service and high technology industries through over 300 divestitures (a total of $5.6 Billion) and 200 acquisitions since 1980 (a total of $10.3 Billion).

The first half of the decade of the 1980's may be characterized by two central themes. First, *change*: rapid and dramatic change has transformed the economy, traditional industry structures, and firms. Global competition, technological growth, federal legislation and policies (deregulation and deficit spending), and increased service economy represent national illustrations of these rapid and fundamental changes. Second, *competitiveness*: response to these rapid and dramatic changes has forced U.S. firms to focus on gaining and maintaining a competitive advantage. Competitive advantage has been defined as a firm's ability to generate unique products or services which are valued by users of those products (Porter, 1985).

Seeking sources of competitive advantage has lead executives down many paths. Traditional paths to competitive advantage (economic, strategic, technological) may be necessary but not sufficient. Additional sustained competitive advantage may come from executives recognizing and creating organizational capabilities through better deployment of human resources (Schuler & MacMillan, 1984; Ulrich, 1986). HR professionals who contribute to CA must become strategic business partners and develop a new set of professional and personal competencies.

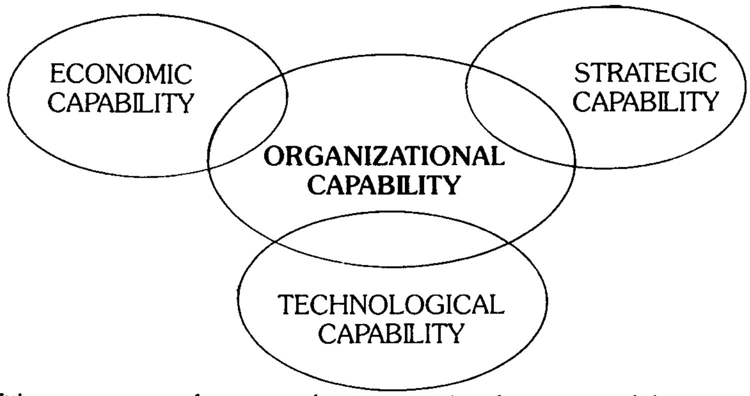
The Nature of Competitive Advantage

Competitive advantage has been defined by two major criteria (Porter, 1981; 1985). First, a firm's competitive advantage comes from firm customers. A firm that produces high quality services that are not used by customers does not have a competitive advantage. Restaurants, for example, must serve food valued by local clientele for the restaurant to maintain a competitive advantage. Restaurants serving dishes that are foreign to local tastes will not likely sustain a competitive position. Second, a firm's competitive advantage comes from offering *unique* goods or services. If a product can be easily copied by a competitor, then the firm can not sustain over time its competitive position. Commodity products, those that can easily be copied, force competitors to compete solely on price, which hurts all firms in a particular market.

To deliver unique customer valued goods and services, firms attempt to develop three traditional sources of competitiveness. First, to meet customer expectations around low cost, firms attempt to reduce the cost of their products as much as possible. Lowering the break even cost of building a product gives a firm a *financial capability* that translates to customer value and competitiveness. Second, offering diverse products or services, developing customer relationships, or being responsive to the market place offers firms a unique *strategic or marketing capability* and translates to competitive advantage. Third, being able to build new products more efficiently translates to a *technological or operational* capability. These three sources of competitive advantage (financial, strategic/marketing, technological) have traditionally been viewed as means of creating unique products valued by customers (see Porter, 1981; 1985; for a review of these views of competitive advantage).

However, a fourth source of competitive advantage has been identified that integrates and sustains the other three (Ulrich, 1987). *Organizational capability* represents the capacity of the organization itself to change and adapt to financial, strategic, and technological transformations. In many cases, organizational capability becomes the source of CA that distinguishes successful from unsuccessful firms.

EXHIBIT 1
Critical Sources of Competitive Advantage



With restaurants, for example, strategic/marketing capability as defined by product mix may be replicated by other restaurants copying menus and products. Financial capability may be had by seeking investors with deep pockets who can support the firm and by offering similar products at similar prices. Technological capability may also be copied as most restaurants purchase equipment and technology from similar vendors. The uniqueness of a restaurant--its atmosphere, ambiance, and service--come from how it is organized and managed as much as by its products, prices, and technologies.

A more specific example illustrates the importance of organizational capability. Ethicon Corporation produces about 95% of the sutures used in surgery in the United States. Margins for sutures are high, products are not unique or enormously difficult to copy, and technology to produce the product requires relatively small investment. However, Ethicon continues to dominate the marketplace. The factor that gives Ethicon its unique competitive advantage lies in relationships between its sales force and customers. Ethicon sales professionals have personal contact and knowledge of each buyer of sutures in the United States. This personal relationship between sales person and buyer allows Ethicon to meet customer needs, to offer unique contacts between buyer and sales person, and to maintain its competitive position. However, the underlying organization practices that mold the seller-buyer relationship must be managed. For example, it may not be realistic to move sales personnel every two or three years so that relationships last; it may be important to create rewards systems for sales personnel so they stay in one location and develop long term clients; it may be critical to hire sales personnel who enjoy managing their territory rather than being promoted to managerial ranks. At Ethicon, the organizational practices that establish and maintain relationships between sales personnel and buyers provides Ethicon a unique source of competitive advantage. A competitor attempting to enter the suture market might be able to acquire financial backing, design equally capable products, and offer technology to build products efficiently, but still not be competitive because the organizational capability of Ethicon can not be easily replicated.

Organizational capability shows itself across industries. Fanuc, the robotics maker, has overcome competitors such as General Motors and General Electric because of the enormous dedication of its people to cost and quality. General Motors and General Electric have reverted to alliances with Fanuc rather than competing head on because they realized that even with money, product, and technology, the organizational capability of Fanuc was a major competitive blockage. Ford Motor Company's prosperity in the 1980's has been accomplished to a large extent because of the automobile makers ability to establish organizational systems to integrate technology and product. The team approach to creating the Taurus and Sable allowed Ford designers, production engineers, and marketing staffs to collaborate to produce a high quality car in a reduced time frame. Such organizational capability provides Ford a competitive advantage over its US competitors.

Organization Practices that Underlie Organizational Capability

Organizational capability is more than just people. People represent a critical aspect of organizational capability, but it is the organization and people management systems that focus people's attention and shape their behavior to create an organizational capability. Within organizations, thousands of decisions are made and practices implemented. To use these practices to build competitive advantage, a framework is needed to classify and define practices and specify choices made to build organizational practices organizes thinking and serves as a checklist to ensure that critical organizational practices are not overlooked in building organizational capability.

Many frameworks have been proposed which classify organization practices (see McKinsey 7-S; Nadler & Tushman (1980) Congruence Framework; or Ulrich, et al. (1984) OASIS framework). To be an organization practice which builds organizational capability, the practice must meet the following criteria:

1. Affect the entire organization. For example, a manager offering personal recognition to an employee may be good management, but it is not an organizational practice which builds capability.

2. Be institutionalized within the organization. To be institutionalized, the practice must be embedded in a set of formal policies for the organization. For example, the need to change organizational culture may be important, but the focus of organizational capability needs to be on the concrete policies and practices of the organization which establish culture, not on the ethereal construct.

3. Be recognized and have a visible impact on attitude and behavior employees in the organization. Some formal practices may be broad based and institutionalized, but not visibly impact people in the organization.

Using these criteria, the set of human resource (HR) activities within an organization as a major set of organizational practices which may be modified to create organizational capability.[1] Human resource practices represent the policies, procedures, systems, and activities used to shape, monitor, and direct attention of people within the organization. These HR practices underlie organizational capability. They are unique to a particular firm; they create a firm's culture (see Kim and Ulrich, 1987); they focus individual attention (e.g., how rewards are allocated may modify behavior) (Lawler, 1981); they reinforce common goals and values (Cummings, 1984); and they become levers which can be used to make change occur (Tichy, 1983).

Frameworks have been developed to classify human resource practices (Tsui & Milkovich, 1985; De Bejar & Milkovich, 1986; Tichy et al., 1982; 1984). Based on this research, six domains of human resource practices may be identified as indicated in Exhibit 2. Within each of these domains, specific choices may be made which build organizational capability and enhance competitive advantage (Ulrich, 1986; 1987b; Schuler & MacMillan, 1984). These six domains of HR practices and examples of choices within each domain include:

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[1]*Obviously more than just human resources practices would characterize organization practices which build organizational capability. Financial, strategic planning, resource, budget, and other systems also exist within an organization. However, human resource practices affect each of these other systems and become the primary levers for generating change in organizations.*

Organization Planning: The practices of shaping and structuring an organization represent organization planning, including:

-To what extent should diverse organization functions be centralized vs. decentralized? To what extent should responsibility for marketing, manufacturing, engineering, distribution, administrative, etc. activities lie within business units, groups, division, or corporate organizational units?

-To what extent should the organization formalize how work is to be accomplished through a set of standardized operating procedures, formal chains of command, or extensive rules and regulations?

-How do different organization units maintain their independence and responsiveness to their unique market niches while integrating their work with other organizational units through transfer pricing, liaison teams, matrix organizations, etc.?

-How are jobs designed so that individuals within the organization work on tasks which are rewarding and self-reinforcing?

-What processes are used to shape the organization structure, e.g., who is involved, how are decisions made, how widely is accountability distributed, how clearly are roles and responsibility defined?

Staffing: The practices of hiring, promoting, and outplacing employees at all levels of the organization. Specific choices exist around:

-What criteria are set for bringing new employees into the organization, e.g., short term vs. long term, job vs. career focused, technical vs. cultural focus?

-How are new employees recruited and socialized into the organization, e.g., role of senior management, socialization programs, mentor programs?

-What career paths exist within the organization, e.g., within one function vs. across different functions?

-What are processes for succession planning, e.g., formalized systems, involvement of senior managers, integrated with strategic planning, linked to development programs, based on technical vs. cultural criteria, internal vs. external candidates?

-How are employees outplaced in times of retraction, e.g., subcontracting employees, relocating employees, early retirements, or lay-offs?

Rewards: The practices of compensation, both base salary and incentive salary, and non-financial rewards motivate employees to behave consistently with organizational goals. Specific practices may be used to shape reward systems including:

-What types of financial incentives exist: short vs. long term, base vs. incentive pay, pay for performance vs. pay for seniority?

-To what extent do reward systems link to strategic plans and encourage employees to work toward accomplishing business needs?

-To what extent do rewards accrue due to individual vs. group or corporate performance?

-How extensively are non-financial rewards structured, e.g., recognition programs, titles,informal status symbols, content of the work?

Development: The practices associated with building employee competencies through training, job rotation, counseling, cross functional moves, or task force assignments may influence organization capability. Choices about development include:

-What are the desired outcomes of development: conceptual understanding, skill building, attitude change, team building, problem solving, or intervention?

-Who are the most appropriate participants for development programs, from new employees to first line supervisors to manager of managers to general managers to officers?

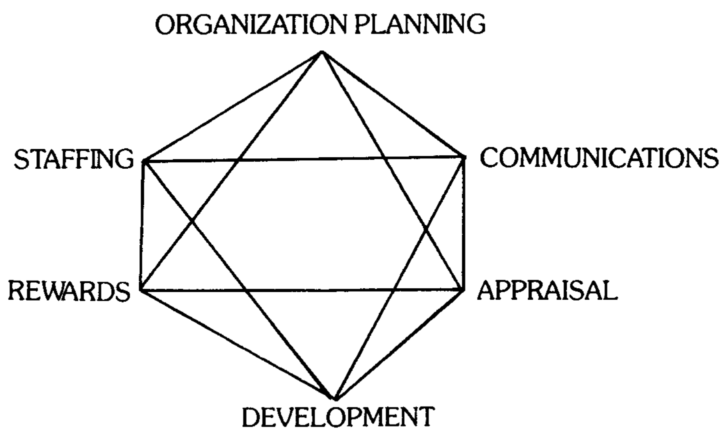
-What content is built into development programs and how are development programs integrated with strategic direction of firms?

-How are training programs delivered, with internal vs. external faculty and facilities, with line managers, with measurement for success, or with required follow-up for participants?

-What alternatives to development may be used to create organizational competencies, e.g., cross-functional career moves, special assignments, committee task forces, etc.?

Appraisal: The practices which set standards, allocate feedback, and performance according to a set of expectations which compose the appraisal process play a key role in setting employee expectations and mindsets which create organizational capability (Cederblom, 1982). Choices include:

EXHIBIT 2
Domains of Human Resource Practices



-What types of standards are set for employees, e.g., behavioral vs. outcome focused, short vs. long term, explicit vs. implicit, linked to individual or strategic performance?

-What types of performance review feedback sessions are offered: how often, with whom, positive and well as negative feedback, how feedback sessions are monitored, what forms and formal reporting systems exist?

-What processes are used to ensure that feedback occurs continually and not only in annual meetings, e.g., monthly stewardship interviews, positive discipline procedures?

Communication: Organizational capability may be enhanced through practices of sharing information with employees to explain not only what needs to be done, but why and how. Communication choices exist around:

-What information is presented to employees? How much information is considered confidential vs. public?

-Who receives information and who shares the information? Choices exist about how far inside the organization to share information and how widely outside the organization information is disseminated?

-How communication programs are designed, including public meetings, management forums for discussion, videos, written communications, bulletins, etc.?

Human resource practices in each of these six domains become the means through which organizations create and maintain an organizational capability to enhance competitive advantage. The choices suggested in each domain enable executives to produce goods or services which meet the needs of organization customers and integrate financial, strategic, and technological capabilities into a unified direction.

Not surprisingly, these practices form the core of the HR professionals job responsibility. The capacity to use these practices in more strategic ways and to use these levers to create sustained competitive advantage becomes critical to the role of the HR professional.

New Competencies Required of the HR Professional

To adapt the above practices in ways that build competitiveness, HR professionals need to adopt new competencies. The requisite competencies for HR professionals may be classified into two groups: *professional* competencies that emphasize the operation of the HR department and the HR professional's interface with business issues and *personal* competencies that focus on individual behavior and performance. By acquiring and practicing these competencies, HR professionals become strategic business partners, or active participants in shaping and implementing strategies to attain competitive advantage. Below are suggested competencies for HR professionals who seek to become strategic business partners.[2]

Professional Competencies

Know the Business. Above all other competencies, HR professionals need to know the nature of the business. This includes activities such as reading strategic plans, learning technologies of the business, meeting often with professionals from other areas and learning about what they do, and understanding financial information. By knowing the business, HR practices that may otherwise be labeled faddish or laden with buzzwords may be refocused to highlight the strategic and financial results of the practice.

Knowing the business implies that HR professionals understand the financial, strategic, and technological capabilities of the firm (see Exhibit 1). Financially, HR professionals need to understand issues around cost of capital, how earnings are derived, sources or organizational expenses, and be able to read and interpret financial statements. Strategically, HR professionals need to understand competitor and customer pressures, to discuss firm products, and to recognize strategic direction of the business. Technologically, HR professionals need to be conversant in the research and development, engineering, and operation processes of the business.

Some HR departments have made conscious efforts to learn more about the business by sending HR professionals to technical conferences as well as human resource conferences, inviting business experts (engineers, marketers, financiers, research and development specialists, etc.) to meet with HR staff groups, ensuring that HR professionals join business teams, and distributing to HR professionals copies of strategic plans, technical reports, and customer reviews of products and services. At HR staff meetings, discussions of the business occur as frequently as discussions of compensation, appraisal, development, or succession planning programs.

Be Competent within the HR Department. Often line managers accept the need for organizational capability and the role of HR in establishing the capability, but respond: "If these HR practices are so important, why don't HR professionals do a better job within their own department?" For HR professionals to be strategic business partners, HR departments need to demonstrate the value and design of effective staffing, rewards, appraisal, and development practices. HR professionals need to ensure that appropriate people are hired into the department, to offer succession planning and career development, to design incentive systems that focus on business needs, to design and deliver appraisals, and to develop the HR professionals in business needs. Without modeling the correct use of HR practices, HR professionals are left in the position of "Do as I say, not as I do", which will not build business partnerships.

Anticipate Change and Respond Proactively. Shifting from reactive to proactive stances requires that HR professionals use the information they have on environmental trends and integrate it with business decisions. For example, a defense contractor in 1986, after receiving a major contract was ready to gear up and hire more people. The HR Vice President looked to the future, and with some degree of confidence, suggested that with federal deficits rising rapidly, defense budgets would be reduced after the 1988 election. Given this anticipation, he argued that in lieu of entering a cycle of hiring, then reducing work force in three years, it would make business sense to find alternative ways of performing the work. Subcontractors, temporary (three year) employees, contract employees, and joint ventures were formed so that the defense contractor could maintain a more stable employment, and be more competitive over time.

In a fast food restaurant business in the Northeast, an HR vice president recognized that the external labor market had little slack with unemployment around 5%, and this condition would likely continue for some time. As a result, finding and keeping qualified store managers was a serious concern. Recognizing this external condition, the Vice President began to redesign the operation of the restaurant business so that individual restaurant mangers assumed more ownership characteristics. Giving

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[2]This list of competencies has been developed at the University of Michigan over the past five years. Annually, approximately 125 senior HR professionals attend training on strategic human resources. One question asked of each participant is: What can be done to be a strategic business partner? These responses have been monitored over this duration and the suggestions follow these responses. This is not intended as a statistically valid sample or assessment, rather as possible suggestions from practicing HR professionals who have identified a set of competencies for HR strategic business partners.

store managers more ownership and responsibility for the store and sharing up to 50% of profits, store managers could earn up to six figure incomes. This removed the difficulty in finding store managers and increased the profits of the entire business.

Anticipating change requires the HR professionals examine conditions external to the firm, e.g., customers, competitors, suppliers, owners, and labor market conditions, then modify HR practices to respond to future conditions. Anticipating tight labor markets may influence stable employment policies; anticipating ownership changes (e.g., merger, acquisition, leveraged buy-out) may highlight HR practices that reduce costs; anticipating customer demands for new products may influence the design of incentive systems and the number of engineers hired. HR professionals who become proactive look to the future and the firm's environment rather than wait for requests.

Involve and Commit Line Managers. The primary responsibility for building organizational capability rests with line managers. HR strategic business partners need competencies in educating, involving, and committing line managers. As staff leaders, HR professionals have the opportunity to frame the problem of HR for the line mangers. By continually framing the role of HR in building organizational capability and competitiveness, HR professionals involve and commit line managers to HR practices.

In designing executive development programs, HR professionals may ensure that concepts such as organizational capability receive equal time and attention as financial, strategic, marketing, and operations modules. One large company sponsored a one-week executive program for the top 600 managers over three years. Although designed by HR professionals, the one week included nothing about HR, but focused on other aspects of running the business. After the program ended, the HR department wondered why they were not treated as strategic business partners by line managers. In the design of development programs, HR professionals can ensure that employees at all levels are exposed to the value of HR as a competitive tool. In design of reward and performance management systems, HR professionals can ensure that development of organizational capability is valued and reinforced. In designing succession planning systems, HR professionals can ensure that people competencies become an important criteria for promotion.

In addition to shaping HR practices, HR professionals may involve line managers in the HR responsibility. At a large electronics firm, the director of development and appraisal involved and influenced the line through a very simple tactic. When the President of the company was making his world-wide tour of 15 countries, the director of development contacted the arranger of the tour. The Director asked if the president couldn't collect some simple information for him while the President visited with each country manager, since he was tasked with redesigning the corporate development and appraisal processes. The President asked two questions on his visit (that took no more than five minutes): What have you done to develop and appraise your people? and What would you need to do to better develop and appraise your people? By asking these two questions, the President and country managers became more aware of and committed to HR, so when the Director of Development contacted each country manager in the month after the visit, all 15 requested his services.

Be Data Based. When strategic planning session are held, financial professionals often attend with cost, expense, income, and other financial data, marketing professionals come with segmentation, customer demand, and market share data. HR professionals who fail to quantity HR practices should not wonder why their programs are more difficult to sell. As suggested by others (see Cascio, 1982; Cascio & Silbey, 1979; Ulrich, 1987c), HR practices can be quantified and assessed in business numbers. While such measurement requires assumptions about the cost of people and the financial impact of productivity,such assumptions can be explicated and human assets translated to financial and strategic terms.

IBM has calculated that each new professional hire is a $9 million investment based on a 35 year career. Because of this enormous investment, IBM manages carefully the hiring process to screen appropriate applicants. Cascio and Ramos (1986) calculated the benefits of assessment centers and found that by using assessment center technology, the AT & T saved over $1,000 per participant. Honeywell in Clearwater, Florida calculated a $1 million savings by modifying its benefit program. A midwestern manufacturer calculated a savings of $1,500 per person in one year based on attendance at a development program. When HR practices translate to financial data, attendance at strategic planning sessions shifts to participation.

Prioritize and Ensure Simple Successes. Some HR departments attempt to excel in each functional area. They try to create successes by being all things to all people. An alternative strategy that leads to being a strategic business partner is to prioritize HR functions. To be able to identify which HR practices are most critical to business success, then unsure that activities in those areas are accomplished leads to partnership roles.

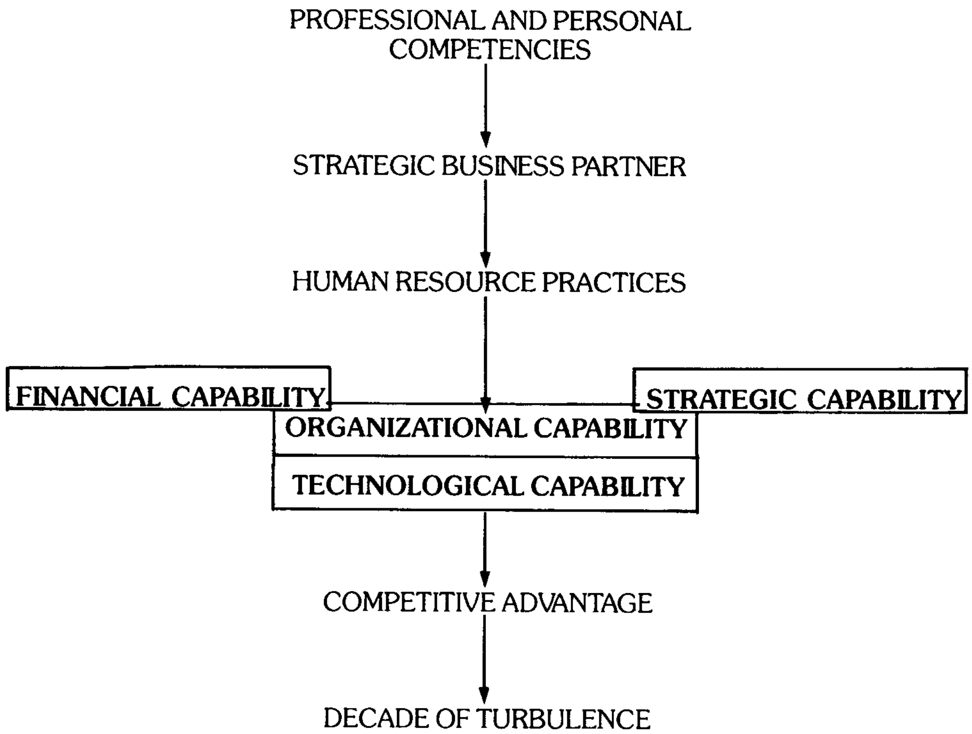
After generating data from line managers about what HR practices would be most important for organizational success, the HR department at Whirlpool focused attention on an executive development program. While other HR practices such as rewards, appraisals, HR planning, succession planning, and benefits were important and received attention, the Vice Presidents of HR committed to offer a world class executive development program. The program surpassed expectations. As a result, when the Vice President of HR proposed revisions of the succession planning process, his success with the development program had already established his credibility, and the succession planning effort was more easily accepted.

Sell Successes. One difficulty some HR departments have is that few outside the immediate department fully understand what they contribute to business success. At times, it is appropriate for HR professionals to share their successes. This does not require extensive fanfare, but consistently sharing information. One director of HR initiated a program where every three months she would simply summarize in one to two pages what the HR department had accomplished in the previous quarter, then disseminate this information to the top 200 managers of the company. The first HR newsletter received little attention, the second a little more, and by the third newsletter, she discovered that managers who previously did not know what HR contributed to the business became more supportive and responsive.

In another company, the HR professionals were able to sell their successes by writing first drafts of senior officers remarks to internal and external constituents. In these drafts, the HR professionals illustrated some of the successful HR practices that the company had initiated, so both the presenters and the audience became more aware of what HR had accomplished. Another firm periodically prepared stories for the local press about the innovative and successful HR program. These newspaper stories became vehicles for communicating to employees some of the HR successes. Some companies encourage universities to prepare cases that can be taught not only in university settings, but in company development programs. These, and other practices, help the HR professional become a more strategic business partner through gaining respect outside the function.

Remain Close to the Customer. HR departments have customers at all levels of the organization. Being a strategic business partner requires that these customers are acknowledged, involved, and central to the operation of the HR department. One company formed an internal board of directors for the HR department. This board, comprised of key line officers, met every 6 months to review the operations of the department. Some companies do periodic, six month, surveys of key customer groups so that opinions of customers are continually monitored. The degree of service provided by an HR professional to a client group, in some companies, influences the reward of the HR professional. Other companies establish customer linkages through ombudsmen, 800-numbers, dedicated HR professionals to respond to questions. One insurance company monitors time of HR professionals to ensure that 25% of the time is spent in a client's work space rather than in the HR offices.

EXHIBIT 3
Logic of HR Professionals as Contributors to Competitive Advantage



Use HR Practices to Build Competitive Advantage. Underlying all the professional competencies that build partnership is the theme of competitive advantage. HR professionals as partners continually ask the question: How will an HR practice affect the competitiveness of our business? Responses to this question may vary. On the one hand, the practice may have little direct relevance for competitiveness. In such cases, HR programs may be stopped. In other cases, development, succession planning, incentive, organization redesign efforts may dramatically increase an organization's competitiveness. As HR professionals continually use competitiveness as a screen for adapting new programs, the result should be increased competitiveness.

Personal Competencies
Think Strategically. Strategic thinking, as a personal competency, requires that HR professionals think long term about today's decisions, that attention be paid equally to pressures outside the firm as well as inside the firm, and that HR practices translate to bottom-line results. Strategic thinking comes as HR professionals focus less on operational and more on strategic issues.

At a health insurance company, the Vice President of HR realized that many of the buyers of his company's products (e.g., health care insurance) were in human resources. He felt that he understood their language, could relate with them, and could help market his insurance product by working with them. He began a Human Resource

Executive Leadership Workshop, where his company would invite senior HR professionals from his service area to a two-day workshop on state-of-the-art HR practices. These workshops would be for minimal fee, and, although held at this company location, would not explicitly market his insurance. However, after two iterations of the workshop, three companies who had not used the insurance as a carrier signed up to offer the carrier. The Vice President of HR was thinking strategically about his insurance company needs and how HR could help in strategic goals.

Develop Credibility. HR professionals must gain credibility to be strategic partners. Personal credibility may come to staff professionals by offering professional and personal services with predictability and dependability and by being available with time and accessible with ideas.

A public illustration of gaining credibility comes from the first three chapters of *Blind Ambition*, by John Dean. John Dean became a legal counsel in the White House under President Nixon. He began his career with low status and relatively minor tasks. He describes his quick rise to corridors of power through helping key White House staffers on both professional and personal legal problems. From being dependable and available to help with both professional and personal legal concerns, he earned credibility that allowed him to be more senior partner in White House operations.

Similar attention to personal needs (e.g., personal development, career opportunities, changing management style, dual careers, etc.) and professional needs (being dependable when asked) leads to credibility and opportunities to be a strategic business partner. In many companies, the HR professional becomes a personal and professional sounding board for senior officers. Since the HR professional is less likely to be directly competing for the senior line manager jobs and since she may be in a valuable position to serve as a senior officer's sounding board.

Be candid. Candor as a personal competency enables HR professionals to be involved in key business decisions. HR professionals have access to candid information, e.g., performance reviews, salary, and informal reviews of managers by peers and supervisors. Within the confines of confidentiality, HR professionals who share bad news gain respect as business partners. When selecting a successor at to himself as Chairman of General Electric, Reginald Jones relied heavily on the Senior Vice President of Employee and Manpower Staffing, Ted Levino. Mr. Levino had acquired through varied data sources information about many candidates for the Chairman's job. By sharing this information candidly with the selection committee of the Board, Mr. Levino added value to the selection process.

In addition to sharing information upward, HR professionals need to be candid with the managers themselves. When asked why a particular manager is not selected for a position, HR professionals gain long term respect by helping the manager see his/her weaknesses, then developing programs to resolve those deficiencies. In a health care firm, when business was down, the President suggested an immediate consolidation and retrenchment strategy. The Vice President of HR confronted this strategy, and suggested that more careful attention needed to be paid to the process of consolidating the business so that hasty short term decisions would not impair long term plans. This Vice President took a personal risk in confronting the President, but his candor caused the President to rethink the strategy and to move quickly, but with attention paid to the longer term implications of the moves. Candor, gained from confronting the President when no other officers would, allowed this Vice President to become a more respectedly and business partner.

Candor often comes from asking the difficult questions that others may not want to address, such as: What work force changes will be required by an organizational change? Will some key individuals need to be replaced to ensure that we have the competencies to do the work? What changes may be needed in senior manager's incentive/compensation systems to send appropriate messages to the organization? By asking these difficult questions, HR professionals become catalysts for change and for organizational adopting new practices and ideologies.

Be Politically Agile.[3] All organizations work on political systems (Tichy, 1983). The personal competence of being politically agile requires that HR professionals be aware of, understand, and use political systems without being seen as political. Learning how to build networks and coalitions to support important projects, recognizing and using levers of influence, and being sensitive to how resources are allocated become important skills of HR professionals as business partners.

In one organization, a savvy HR professional suggested, "You need to learn which way the train is rolling, then get on board." In this organization, a new Chairman arrived, with an emphasis on innovation and growth and a deemphasis on cost. HR professionals who were not politically savvy to shift their interests were left behind when projects that supported innovation and growth gained financial support. Developing networks and support systems requires identifying key players, spending time with those individuals, and figuring out ways to collaborate on projects so that political support is gained.

Be a Leader. Leadership has received increased attention in recent years (Tichy & Devanna, 1986). Two key leadership competencies become critical for HR professionals as strategic business partners. First, the leader needs a personal vision of what s/he wants to see accomplished. A vision goes beyond daily events and paints a picture of what the future might hold. A vision motivates employees with a new mindset of how future states may improve on present circumstances HR professionals needs personal visions of themselves and their roles in the future organization.

Second, leaders have the capacity to commit themselves to a cause over time. Persistence becomes a critical competency for partnership. The ability to rebound when pet projects go awry, to be flexible in the face of change, or to continue with projects when others may be non-supportive become critical skills for leaders and HR professionals as partners. In an electronics firm, an HR professional found that his priority project on development became undermined when he was out of the country. Rather than get angry with the individuals who undermined the project, he worked on his political network, revised the project, and in another form convinced management that the project was the right thing for the company at that time. Like children learning to walk, persistence often leads to the competency of being a leader and of accomplishing seemingly difficult goals.

In the quest for leadership, HR professionals often need to be recharged through contacts outside the company. From attending national conferences, from having a network of allies around the nation in similar jobs, from having colleagues who can keep energy up, HR professionals maintain commitment levels to high quality performance.

Professional and personal competencies can be developed, they are not innate. Little things, as illustrated in the examples, may have large impact as HR professionals work towards becoming strategic business partners.

Conclusion

In a decade of transformation, competitiveness has become more than another program, fad, or buzzword. In a global economy, with more firms competing for fewer resources, all firms must recommit to building a competitive advantage. Sources of CA include, but are not limited to financial, strategic, and technological capabilities of a firm.

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[3] *The term "political agility" comes from discussions with Bob Eichenger at the National Human Resource Planning meetings in San Francisco, 1987. The word is used here because it eloquently describes not only an awareness of, but ability to use the political system.*

In addition, a firm's organizational capability represents a firm's unique attributes that may be translated to customer value. Organizational capability derives from firm-specific organization practices that enable the firm to adapt to changing financial, strategic, or technological conditions. HR practices become critical decisions for building organizational capability.

As the guardian and expert of HR practices, HR professionals build organizational capability. As such, HR professionals play a central role in creating and sustaining competitive advantage. To do so requires that HR professionals acquire a new set of professional and personal competencies. Acquisition of these competencies enables HR professionals to be strategic business partners and play a more active and central part of organizational decisions.

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