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HR Fostering a Competitive Strategy: For Business Survival

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Abstract: ***"A firm is profitable if the value it commands exceeds the costs involved in creating the product. Creating value for buyers that exceeds the cost of doing so is the goal of any generic strategy. Value, instead of cost, must be used in analyzing competitive position" (Porter, 1985, p 38).*** *This article specifically a combination of HR practices, work structures, and processes that maximizes employee knowledge, skill, commitment and flexibility. Analysing the underlying principles that guide the development of high-performance work systems and potential benefits that can occur as a result. This outlines the various components of the system, the work-flow, design, HR practices, management processes and supporting technologies. In addition to these it also focus on the processes organizations use to implement competitive strategy systems as well as the outcomes that benefit both the employee and the organization as a whole.*

Keywords: *competitive strategy Business Survival, Innovative process, Organizational excellence, competitive advantage etc.*

1. INTRODUCTION

A position that determines whether an organisation's profitability is above or below the average. The primary basis of above average profitability in the long run is sustainable competitive advantage over its' rivals. The challenge for a marketing strategy is to find a way of achieving a sustainable competitive advantage over the other competing products and firms in a market. A competitive advantage is an advantage over competitors gained by offering consumers greater value, either by means of lower prices or by providing greater benefits and service that justifies higher prices.

Strategies attempt to optimize the match between the organization's missions, what is occurring or is projected to occur in the external environment, and the organization's internal operations.

Strategies include:

- setting short- and long-term business objectives for the organization,
- setting courses of action necessary to achieve those objectives, and
- allocating the resources needed to carry out those actions.

2. COMPETITIVE STRATEGY

The literature dealing with strategy contains a great many categorizations and terms that refer to different types and levels of strategy. For simplicity we choose one, competitive strategy, to demon-strate the relationship between organizational strategy, HR, and HRD. What most companies call their competitive strategy concerns positioning themselves in the market place. This, their most important strategy, includes the set of interrelated internal and external choices made by the com-pany to improve or retain its competitive position. Competitive strategy also provides the added benefit of a documented relationship to many aspects of managerial and organizational behaviour.

Three competitive positioning strategies illustrate a continuum of possible competitive strategies: market leader, market follower, and cost leader. We will briefly discuss all three, concentrating on the two ends of the continuum (market leader and cost leader). These two extremes clearly illustrate the implications for developing HR and HRD strategies that are consistent with the competitive strategy.

Market leader organizations, also labeled prospectors[4] and innovators,[5] find and exploit new product and market opportunities. Success depends on their capacity to survey a wide range of environmental conditions, trends, and events and move quickly into windows of opportunity. Market leaders typically use multiple types of technology capable of being used in many different ways.

The **market follower,** also labeled analyzer[6] and differentiator,[7] minimizes risk and maximizes profit opportunity by moving into a market after its viability is established by others. The success of the market follower depends on copying and improving upon products with an established market. Such organizations must be able to respond once markets are proven, but at the same time maintain operating efficiency in the market and product areas already established. These firms represent the middle portion of the competitive strategy continuum.

The **cost leader**[s] also referred to as the defender,[9] represents the opposite end of the continuum from the market leader. Its main goal is to be the low-cost provider in the industry. Its success depends on its pricing competitiveness and having a product that is acceptable to the market (not necessarily the best). It achieves this success by producing a standardized product or service efficiently, by using economies of scale, low-cost labor, and perhaps by introducing innovative production methods.

Strategies reflect choices the organization makes about how to pursue its mission. An organization must choose from among a large number of often contradictory strategies. For example, one way to pursue a cost leader strategy, is to aggressively pursue competing bids from as many suppliers as possible, then accept the lowest bids from as many suppliers as needed to meet requirements. A different tactic is to develop long-term relationships with a few suppliers with capacity to meet your requirements, guaranteeing sole supplier status in return for meeting a specified price target. Both tactics can reduce the cost of sup-plied materials, but they result in different effects on the purchasing activities of the organization and on supplier relationships. Among the feasible alternatives, the company seeks to choose the one that will best achieve the mission. Which will be "best" depends on how the organization addresses its strategic contingencies.

3. STRATEGIC CONTINGENCIES

The success of a competitive strategy is contingent on the demands of the external environment and factors internal to the organization. The relationships among environment, strategy, structure, and technology. As it indicates, strategy as it is the process of making internal adjustments to accommodate the demands of the external environment, while remaining true to the mission. Note, however, the arrow between strategy and environment shows influence in both directions, which reflects the fact that the choice of competitive strategy may change the environment in which the firm operates. The external competitive strategy requires an internal strategy to be developed and implemented. The internal strategy reflects how the organization must change in order to carry out the competitive strategy. The two key factors in the internal strategy are the organization' structure e.g., division of labor, policies, procedures and core technology (how the principle products or services are created). Because the core technology is so critical to implementing external strategy, it can influence the strategy that is adopted. Thus, when a competitive strategy is not consistent with the core technology, one of these factors must be changed. Again, this strategic choice is one the organization must make. External and internal strategies are aligned to maximize the match between environmental demands, the core technology, and the organization's structure.

4. EXTERNAL ENVIRONMENT

An organization's external environment consists of elements outside the organization that influence the organization's ability to achieve its mission. Competitors, the economy, societal norms and values, laws and regulations, raw materials, suppliers, and technological innovation are examples. An environmental factor that is important to one organization may or may not be important to another, even if they are in the same industry. Because organizations differ (for example, their mission, internal resources, and operations), external factors will affect each organization differently. Each organization must examine its environment for threats and opportunities. The degree to which a factor needs to be addressed in the strategy depends on the size of the threat or opportunity. The success of a competitive strategy can be significantly influenced by the uncertainty of the external environment. Environmental uncertainty is determined by two factors: complexity and stability. Environmental complexity refers to the number of factors in the environment and how interrelated they are. Environmental stability is the rate at which key factors in the environment change; the more rapid the change, the more unstable the environment. When the environment is more complex and unstable, it is more uncertain. When it is simpler and more stable, it is more certain.

In more uncertain environments, the organization must be flexible and adaptable in order to respond effectively. A market leader strategy is consistent with this situation. More certain environments' demand less need for flexibility, so a more rigid operating method can minimize costs and maximize profitability, a situation consistent with the cost leader strategy. Uncertain environments generally favor strategies using more decentralized decision making, whereas centralized decision making is usually more effective when the external environment is more certain. The choice of competitive strategy puts the organization into a particular environment. In choosing a strategy an organization must analyze the environment for that strategy. For example, given two similar organizations, the one choosing the market leader strategy will by definition compete in a more uncertain environment. The cost leader, on the other hand, competes only in established and more stable markets. This environment maybe more hostile, but it will experience a slower rate of change.[Thus, choice of strategy is often a choice of environment. At the same time, the state of an organization's external environment should influence strategy decisions. For example, in an industry such as telecommunications, the rapid changes in information technology and governmental regulations influenced many firms to shift their market position strategies more toward the market leader end of the continuum. Although these generalizations are somewhat simplified, the concepts are generally supported by a heuristic for understanding the contingent nature of the relationship between strategy and environment.

5. CORE TECHNOLOGY

Technology is how the work gets done in the organization. Each unit in the organization uses a technology to accomplish its tasks. Core technology refers to the main activities associated with producing the organization's principle products and services. A number of ways can be used to categorize technology. Taking some liberties with these approaches, we use a simple continuum of "routine" to "non-routine" technologies. At one end, the routine technology label is applied to tasks whose outcomes (1) are highly predictable, (2) demonstrate few problems, and (3) use well-structured and well-defined solutions when problems do occur. High-volume assembly lines, such as a garment factory or some automobile plants, are examples of routine technology. Such operations consist of highly specialized tasks and well-defined rules for coordinating activities. Decisions are usually top-down and highly formalized, leaving little discretion to the line employee. The routine technology is most often seen in the cost leader strategy. Even though the initial infrastructure required to put this technology in place can be expensive, its efficiency in high-volume production provides low production cost per unit. A task using non-routine technology is characterized by (1) results that are difficult to predict, (2) problems occurring often and unexpectedly, and (3) solutions to problems not being readily available and needing to be developed on a case-by-case basis. With this type of technology, management needs to provide lower-level managers and line employees with more decision-making authority to meet the challenges encountered. This responsibility, of course, means the firm needs employees with a higher level of KSAs. It is further complicated by the greater task interdependence characteristic of this technology, which increases the need for coordination and integration. Managers and workers need decision-making authority within their own areas, but their activities must also be coordinated with the activities of others. Thus, employees must be given clear goals and parameters for their work outcomes but be allowed to determine the best way to meet them. This type of technology is more typical of market leader strategies where the development and production of new products is key. The cost of the non-routine technology may be high, but new products are able to command high prices in the marketplace. Leading-edge software and computer chip developers, such as Microsoft and Intel, are examples of such companies.

6. STRUCTURAL IMPLICATIONS OF STRATEGY

Organization structure refers to how a firm is organized i.e., how labor is divided and the policies and procedures used for coordinating its various activities. The structure is utilized to carry out the strategy and must be aligned to address both the strategic environmental factors and the core technology. An organization's structure involves many aspects, but we are interested primarily in three components: organizational design, decision-making autonomy, and division of labor.

7. DESIGN

Organizations should be designed to ensure the effective operation of the core technology. **Organizational design** refers to the number and formality of rules, policies, and procedures created to direct employee behavior. An organization's design can be characterized as existing somewhere on a continuum ranging from mechanistic to organic. A highly **mechanistic design** reflects an organization with highly defined tasks, rigid and detailed procedures, high reliance on authority, and vertical communication channels. The highly **organic design** reflects an organization that is flexible in its rules and procedures, has loosely defined tasks, is highly reliant on expertise, and places a high reliance on horizontal communication channels. Few organizations operate on the extremes of this continuum, but most lean more toward one end or the other.

The organic design places more emphasis on human resources and the mechanistic more on technical and financial resources. In the mechanistic design, employees' technical and interpersonal skills and behaviors are prescribed. In the organic design these skills and behaviors are permitted to evolve (within broad parameters) in order to supplement and complement the unit's technology. As you might suspect, the organic design is most appropriate for non-routine technologies, whereas the mechanistic design is more appropriate for routine technologies.

8. DECISION AUTONOMY

The amount of authority given to employees in deciding how to complete a task and the degree to which they are able to influence goals and strategies for their work unit is called **decision autonomy** Individual or small group decision-making autonomy is a function of whether decisions are centralized or decentralized. Cost efficiencies are associated with more centralization, whereas flexibility/adaptability is associated with decentralization. Thus centralized structures are more appropriate for cost leader strategies and decentralization for market leaders.

Division of Labor The way in which the work is divided and organized is called **division of labor.** Of the many ways in which labor is divided, one is line (those working directly with the core technology) and staff (everyone else); another is management and labor. Some organizations divide themselves by products, others by customers or geography. Some divide the work into functional areas while others organize work around the processes in their core technology. Even though these divisions are important, we focus on how specialized the duties and responsibilities are within the organization. We place organizations on a continuum from narrowly defined specialized to generally defined duties and responsibilities. The more narrow the duties and responsibilities, the more centralized the decision making and the more mechanistic the organization will be. This results from the need to extensively coordinate the activities of employees whose scope of responsibility is fairly narrow. In organizations in which duties and responsibilities are more broadly defined, a more organic and decentralized structure is appropriate, allowing the employees to coordinate their activities less-formally and providing more flexibility and adaptability for the organization. Again, you can see the close relationship between an organization's core technology and how labor is divided.

9. PROACTIVE AND REACTIVE STRATEGY

Formalized strategic planning is a proactive process used to decide how best to meet the demands of the environment in the near (e.g., next year or two) and long term (e.g., next 5 to 10 years). A **proactive strategy** requires a more formalized process typically involving sophisticated analytical and decision-making tools. It is proactive because it is a deliberate process for determining how the organization should respond to the anticipated business environment. Its purpose is to create a good fit between the organization and its future environment.

However, strategy can also develop in a more reactive fashion, evolving in reaction to short-term business conditions. In a **reactive strategy,** less formal analysis and planning occur and more attention is focused on the immediate future. Many suggest that both reactive and proactive strategies are necessary for an organization to be effective. The formalized (proactive) process uses a best guess about what the future will bring; the day-to-day (reactive) operations confront what the future has actually brought. A strategic plan that positions the firm for long-term expectations but is modified by the firm's experience as it moves forward is preferable to either a rigidly held long-term plan, or to only reacting to short-term experience.

In the proactive strategy development, the organization typically identifies its strengths and weaknesses (internal focus) and compares them to the mission-related opportunities and threats (external focus) posed by the environment. The SWOT analysis (strengths, weaknesses, opportunities, and threats) is used to identify the organization's business objectives (e.g., market share, volume, profit) and its strategies (e.g., market penetration, product mix, pricing). The strategies are aimed at minimizing threats and weaknesses while taking advantage of the opportunities and strengths. When the strategy is allowed to evolve in a more reactive form, the same processes take place but typically less formal analysis occurs and fewer people are involved in the decision making. Organizations that engage in both proactive and reactive strategy formulation typically use the reactive approach to continually fine-tune the strategic direction.

10. Matching Internal to External Strategy

Organizational strategy needs to be both externally and internally focused. The external strategy is related to the environment. Technology and structure are the focus of the internal strategy. The role of strategy is to make the best possible match between the internal and external factors. The competitive strategy is external. It is concerned with such factors as what product or service markets demand and what competitors are doing. It positions the organization to take advantage of opportunities and avoid threats. Internal strategies address issues such as organizational culture, design, division of labor, resource allocation, and innovation. Internal strategies aim to maximize the strengths and minimize the weaknesses of the organization. Together, the internal and external strategies are integrated to form the organization's strategic plan. The development of internal and external strategies is an interactive process with each being more or less dependent on the other, For example, a cost leader strategy would require strength in areas such as production efficiency (e.g., economy of scale), purchasing (e.g., supplier leverage), and tabor cost (e.g., number of employees). If a firm is weak in these areas, adopting a cost leader strategy is difficult because the firm must transform its weaknesses into strengths. It is easier to adopt a strategy consistent with its existing strengths.

On the other hand, the environment may compel an organization to abandon its current strengths to pursue opportunities and avoid threats. Suppose a company developed moderate strength in areas supporting a cost leader strategy, but its many competitors are also strong in these areas (threats) and few or none are strong in market leader characteristics. If the analysis indicates strong opportunities for those developing new products, these factors may suggest that the firm develop a market leader strategy. Doing so would then require an internal strategy to develop the necessary strengths. The following example describes some potential internal strategies for a company that recently adopted a market leader strategy. The following changes to the internal processes and systems would act to support the external strategy:

- Increase the size and influence of product development and market research.
- Increase flexibility of production technology (i.e., the ability to shift from product to product quickly).
- Increase interaction between product development and market research (structure).
- Increase creativity within product development (structure).
- Align reward systems to support innovation (structure).
- Increase knowledge base of employees (technology and structure).

The external strategy must be supported by internal strategies that bring the structure and core technology into proper alignment. HR and HRD are typically key players in the development of these internal strategies.

11. HR and Competitive Strategy

The HR function is responsible for acquiring and maintaining the human resources needed by the organization. HR accomplishes these objectives through systems such as staffing, human resource planning, performance appraisal, compensation, health and safety, employee and union relations, and, of course, training. Each of these systems influences the organization. Integrated under the HR umbrella, they can enhance the organization's ability to mobilize the necessary human resources to carry out a competitive strategy. The organization's HR function is also a critical contributor to the analysis of organizational strengths and weaknesses. Analysis of information related to current employee capabilities is important in developing external strategies (e.g., market position) and the corresponding internal strategies (i.e., structure, technology).

In addition to contributing to the development of the organization's competitive strategy, HR activities must support those strategies once they are adopted. Decisions about competitive strategy need to be reflected in HR strategy, and vice versa. For example, if the company's operations are labor intensive and a strong union consistently demands high wages and restrictive work rules, it would be foolish to adopt a cost leader strategy without addressing these issues first. Similarly, once the company makes the decision to adopt a cost leader strategy. HR must develop its own strategies for supporting cost leadership. HR strategy must be aligned with competitive strategy, and each influences the other. Let's assume a cost leader strategy requires a change in production technology (e.g., more automation); this change could be accomplished only if HR is capable of staffing the new technology. HR's input into the strategy formulation process might be the identification of what it would take to staff the proposed technology and the likelihood of being able to do so. Failure to address the HR side of the strategy could lead to the purchase and installation of a new technology that, among other things, is too costly to staff, creates labor conflict, produces conflicts in the existing culture, or requires lengthy training, thus delaying the implementation of the technology. Might any of these things happen.

12. HRD and Strategy Development

Throughout this text we emphasize that HRD is in the business of supporting the organization's strategies, goals, and objectives. In this supporting role, HRD contributes to the organization's competitive position in the following ways:

- Ensuring employees have the necessary competencies to meet strategic performance demands
- Identifying and assisting in the removal of harriers to desired performance
- Providing key information related to the development of competitive strategies
- The last point, "providing key information," involves many issues. Obviously, HRD needs to provide an assessment of employee strengths and weaknesses relative to the competitive strategy. Unfortunately. Many organizations don't think of HRD in this strategic sense. Product innovation or cost leadership strategies are often formulated with little consideration of employee capabilities, and it is only after implementation problems surface that HRD considerations may arise. These problems often result in costly delays in implementing the strategy, perhaps even dooming the strategy to failure. Assuming the competitive strategy requires increasing the competencies of employees, the various methods of approaching this task would need to be examined. From this evaluation, HRD could make an estimate of how long it will take before employees are ready to implement the strategy and the amount of resources required. This information is provided to the strategic planning group so it can determine the cost/benefit of the strategy.

Staffing (new hires) is another way of improving the competency base of the organization. In the staffing approach, competencies would be imported through recruitment and hiring. Even here, however, HRD would need to be involved in orientation and any other "new employee training." Adding competencies through new hires implies current employees would be terminated or reassigned. The implication of this approach must be considered and factored into the strategy feasibility equation. If termination or reassignment becomes part of the internal strategy, training will likely be involved. For those reassigned, training in their new duties and responsibilities will be necessary. For those terminated, some form of outplacement training may be needed.

13. The Role of Competencies in Strategy Development

We are not suggesting that HR issues should be the only or most important influence on the strategic direction taken by an organization. However, it should be part of the equation. The relative importance of strategic variables such as technology, financial assets, product, and human resources varies from one context to the next. Likewise, the importance of HRD issues to competitive strategy depends on how central employee expertise is to business success and the **value** of using current employees compared with acquiring new ones.

For firms that compete in markets where technical innovations are continuous and the rate of knowledge growth is high (e.g., electronic communications), employee expertise is a strategic asset. For firms in which change is slow or nonexistent or where markets are less knowledge-intense (e.g., food processing), HRD may have less strategic importance. However, any organization operating in a highly competitive market should consider giving employee competencies a high strategic value.

Because new technology is always developing and continuous quality improvement has become standard in most industries, strategies for increasing employee competence can provide a competitive advantage.

In formulating the firm's competitive strategy, the value of input from HR and HRD lies in the information they possess about the organization's ability to carry out different strategies. Organizations in market leadership positions, especially, must find ways to sustain their innovation advantage. Human resources are ultimately the only resource with the capability to adjust continually to changing market conditions. The development of human resource expertise provides a potentially inexhaustible supply of new ideas and creative approaches to the demands of the environment. Using employee knowledge as a major component of company growth and competitive advantage only recently began to be appreciated in strategy formulation. Once competitive strategies are formulated, HR and HRD adopt the more traditional role of supporting those strategies.

14. Conclusion

An organization's strategy needs to be both internally and externally focused. Proper development of a strategy requires a SWOT analysis to determine its best fit in the market, given its own strengths and weaknesses. Competitive strategies from which an organization can choose include market leader, market follower, and cost leader. Each results in different implications for how HR goes about its business. The HR department needs to be involved in the strategic planning process, providing information about workforce readiness to meet alternative strategic directions. From this and other information, a strategic direction is determined.

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