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HRM and Competitive Advantage

CHAPTER OBJECTIVES

After reading this chapter, you should be able to:

- 1 List the need for an organization to possess competitive advantage
- 2 Enumerate the sources of competitive advantage
- 3 Elaborate the methods for developing competitive advantage
- 4 Describe the HRM practices essential for achieving competitive advantage
- 5 Understand the link between international HRM and competitive advantage

As a knowledge-driven organization, the software giant Infosys has rightly recognized the critical role of its HR in developing and sustaining its competitiveness. To ensure that it utilizes its precious human capital optimally to stay ahead in the market, it has developed several innovative workforce management initiatives. For instance, it has training programmes like “Pravesh”, a continuous learning programme for first-time project managers, and the Global Business Finishing School project for new entrants to learn their jobs quickly. Similarly, it has a cost-effective recruitment programme called the Global Talent Search Programme, through which it recruits candidates from the campuses outside India, develops their skills through training assignments in India and posts them only in their home countries. Further, it has “Sparsh” (an Infosys intranet facility), which is a

news channel and information-sharing platform for employees. The aim of this technology-leveraged tool is to help employees acquire and share up-to-date information with their colleagues. The cumulative effect of these efforts, Infosys believes, would be the competitive advantage for the company in the market. In this regard, it considers zero-delay service and collaborative team work as strong elements of its competitive advantage strategy. In fact, *Business Today* and Mercer jointly rated Infosys as the best company to work for in India in 2006 on the basis of key HR metrics like employee satisfaction, HR policies and processes, and perception of key stakeholders. Infosys's example proves the practical applications of HR practices in promoting and sustaining competitive advantage. We shall now see the specific HR practices which prove to be competitive advantages for organizations.

Introduction

The aim of every organization is to secure and sustain a superior position in the marketplace by gaining an edge over its competitors. This superior market position, which is also called competitive advantage, is usually achieved by organizations through their distinct policies, programmes and practices. The four critical characteristics that distinguish an organization from its competitors are value, rarity, inimitability and non-substitutability of its policies and practices.¹ In fact, every successful company enjoys one or more areas of competitive advantage that usually forms the basis for all its future strategies. However, competitive advantage strategies need not be identical; they can differ on the basis of the nature and size of the organizations. For instance, a pharmaceutical company may possess a good research team while an insurance company may offer a high quality of service. Traditionally, cost leadership and/or product differentiability form the basis of competitive advantage for many organizations. Cost leadership refers to the strategy of gaining a competitive advantage by selling goods and services at a cost lower than the business rivals. Product differentiability means selling products that stand out from competitors on the basis of features, values, quality, and design.

Strangely, conventional sources like cost leadership and product differentiability are fast losing their status as sources of competitive advantage. This is because they could be easily imitated and substituted by the rival organizations within a remarkably short period of time due to the globalized nature of business operations, intensified competition, fast-paced technological development, and strong research and development. Organizations are now turning their attention towards a vibrant HR and beginning to view them as an untapped and long-term source of competitive advantage. They also realize that by developing and sustaining an efficient and committed workforce, they can enjoy a durable and non-substitutable competitive advantage in the market. They further feel that by employing effective HR practices that help in the management and control of labour cost, a cost leadership can be achieved in the market. For instance, the cost involving recruitment, selection, training, and compensation is sizable for several organizations. Those organizations that succeed in controlling these costs are in a better position to gain cost leadership and achieve the resultant price (competitive) advantage over their competitors.

Hard and Soft HRM

HRM can be viewed from two different perspectives by an organization. These are: (i) a hard version of HRM and (ii) a soft version of HRM.² The hard version of HRM is a traditional approach in which the employees are viewed as headcount resources. Further, it emphasizes a rational approach to the concept of the management of employees by considering people as one of the factors of production and a cost that must be controlled. The other version of HRM views employees as humans. It emphasizes flexibility and adaptability in HRM. This method also insists on developing a high-commitment work system where employees are more self-regulated and disciplined and there is less external control. This version of HRM encourages investment in the training and development of HR and insists on commitment strategies to ensure that highly skilful and reliable employees obtain the requisite competitive advantage for the organization. The soft version of HRM is better suited for developing competitive advantage through effective HR practices.

Understandably, companies are now focusing on specific HR policies that can develop a skilful, motivated and committed workforce, even while reducing HR-related cost, to achieve competitive advantage. However, the responsibility for developing such HR policies lies not

**Box
32.1****Definitions**

“Competitive advantage is a status achieved by a company by gaining a superior market place position relative to its competition.”³

—Lawrence S. Kleiman

“Competitive advantage is any factor that allows an organization to differentiate its product or service from those of its competitors to increase market share.”⁴

—Gary Dessler

only with the HR managers but also with line managers. Indeed, a close coordination is required between HR managers and line authorities on all critical HR activities, including procurement, development, compensation, career planning, and performance appraisal.

Competitive Advantage

It is difficult to define the term *competitive advantage* as the factors that contribute towards obtaining such an advantage for an organization cannot be quantified. Still, a few experts have attempted to define the term. Box 32.1 showcases these definitions.

We may define competitive advantage as a unique position in the market achieved through factors that enable a company to consistently do better than its competitors.

Need for Competitive Advantage

Several studies indicate that the HR practices of an organization have a close relationship with its profit. There is sufficient proof available today to show that investment in HR does pay off.⁵ Further, companies with effective HRM practices generally outperform those with low ones.⁶ In recent times, HRM is increasingly coming to be seen as contributing to the overall effectiveness of an organization and, accordingly, it has gained a new stature. Thus, a company needs to have one or more competitive advantages for the following reasons:

- To stay in control of the market and to play a dominant role in the industry
- To engage in a proactive role in the market, thereby forcing the competitors to play only a reactive role
- To enable companies to attract and retain qualified employees with ease, thus ensuring a better fit between the company and the employees
- To improve operation efficiency constantly and lower the cost of production
- To focus continuously on research and development that will help invent new strategies to sustain its competitive advantage since the existing strategies are sure to be imitated by the competitors in a short period.

Sources of Competitive Advantage

There are three kinds of resources available to achieve competitive advantage on a sustained basis: physical resources, organizational resources, and HR.⁷

Physical resources are those assets that are employed in the production process of an organization. These resources have a physical existence and are tangible in nature. Plant and machinery, furniture and fittings, and raw materials are a few examples.

Organizational resources usually comprise organizational structure and processes. They may include, among others, strategic planning systems, evaluation process, reward systems, and control processes.

Human resources mean the total skills of the employees of the organization. They may include, among others, experience, competencies, knowledge, judgment, and other job-related qualities of the members of the organization.

Developing Competitive Advantage through HRM

The growing realization among HR managers that HR will be central to any long-term, sustainable competitive advantage has strengthened their resolve to try new HR policy initiatives. They can adopt any one of the three methods mentioned in Figure 32.1 to develop competitive advantage, after making necessary modifications to suit their requirements.

Developing Suitable Strategies

In this method, an organization comes up with a new strategy whenever it presumes changes in the needs of the customers and the market. In fact, it formulates appropriate strategies every time to meet the changing needs of the customers without delay. This process of developing fresh and suitable strategies becomes its competitive advantage in due course of time. Quite understandably, the role of HR managers is pivotal in the whole process. They must keep

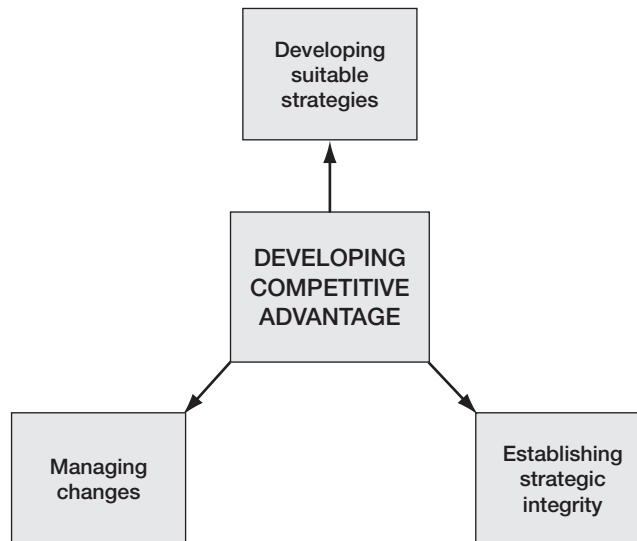


Figure 32.1

Methods for Developing Competitive Advantage

the employees constantly aware of the company's strategic goals and mission. Besides, they must be sufficiently attuned to the developments in HR practices and use them effectively as important tools to accomplish the formulated strategic goals. For instance, if an organization decides to make product differentiation as a competitive advantage strategy, it should develop HR practices that promote creativity in product design and development, offer rewards for skilful performances, and have a customer-oriented performance evaluation for gaining a competitive advantage.

Managing Changes

This is another form of gaining competitive advantage through HRM. Organizations usually exhibit greater flexibility and always remain prepared for changes in the environment. These dynamic organizations are generally more successful in attracting and retaining customers and, thus, enjoy a competitive advantage. Effective HR practices can enhance immensely the preparedness and capability of these organizations in tackling changes. For instance, recruiting candidates who fit the strategic mission of the organization, educating employees about the importance and inevitability of change, rewarding dynamic employees and evolving performance evaluation tools with flexibility and diversity as major criteria are some of the measures that can improve organizational preparedness to deal with changes.

Establishing Strategic Integrity

Strategic integrity indicates the degree of sharing of core values with the customers, suppliers and employees alike and assumptions about the business. For instance, if a company views courteous behaviour as critical to the success of its business performance, it treats this as a core value. Subsequently, this core value is fostered among employees, customers, suppliers and other stakeholders of the business. The intention here is to develop certain core values that can distinguish the company from its competitors and provide it a unique position in the market. Box 32.2 shows the essence of cross-functional engagement at Castrol India.

Box 32.2

Cross-Functional Engagement: A Prelude to Competitive Advantage

HR managers focus on forming multiple cross-functional teams intentionally to work across the organization in different kinds of projects. The purpose is to emphasize the importance of teamwork and achieve competitive advantage. The task of the HR manager at this point is to make sure that business managers apply HR policies and procedures that promote cross-functional teams all through the organization. The idea behind this plan is to help the organization develop partnerships across different teams, which eventually supports corporate aims and objectives.

In fact, the best performing companies across a wide range of industries consider teamwork as essential for

achieving competitive advantage. For instance, Castrol India attributes its success to the strength of its brand and its strong customer relationship backed by the commitment of its team. It strongly believes that team effort can bring it competitive advantage in the market even at the time of fierce competition. The company believes that its collaborative effort and effective cross-functional engagement are the keys to its ability to combat costs and competitive challenges and manage risks proactively.

Adapted from <http://www.castrol.com>.

**Box
32.3****Differentiation at Apollo Tyres**

Without valuable human capital in the form of well-trained and highly competent employees, organizations cannot gain competitive advantage in the market. Thus, they formulate and execute HR policies and practices that develop skilful, motivated and committed employees. Apollo Tyres Limited is a case in point.

Apollo Tyres has recognized that the company's biggest differentiator in the market is its employees and their creativity. It has many HR policies to promote its competitive advantage in the market. For instance, it has innovative schemes like the plant-level Kudos

Club, Achievement Award certificates and paid holiday packages for rewarding those employees who exhibit innovative or out-of-the-box thinking. Similarly, it has schemes to ensure that the good ideas of an employee are acknowledged among all other employees. In fact, the entire organization is asked to work on those ideas and implement them as part of their direct contribution to Apollo's phenomenal growth plans. As a result, employees are willing to stretch and innovate to achieve what is often considered by others as impossible.

Adapted from <http://www.apollotyres.com/>

Relevance of HR Practices as a Tool for Competitive Advantage

Unique corporate policies and practices provide an ideal option to an organization to create and sustain competitive advantage in the market. In this context, strategies like quality manufacturing processes, cost leadership, special sales offers, product differentiation, and efficient distribution systems certainly enable an organization to gain competitive advantage. However, once a strategy becomes successful in the market, it is very difficult to sustain it as it could be easily imitated or substituted by the competitors and, thus, the initial advantage is lost quickly. Hence, organizations are now looking for factors that would be less exposed to imitation by rivals and rarely substituted. In this regard, HR practices can be the best bet for achieving an enduring competitive advantage. The specific reasons are:

- The HR practices of an organization are usually not visible to outsiders and, as a result, the competitors hardly get access to these unique practices. Thus, it becomes difficult to imitate such practices.
- Even when it becomes possible for the competitors to access or imitate the HR practices, success is not assured for them. This is because HR practices are closely inter-related with one another and are overlapping. When a single HR practice is imitated by the rival, it may not produce the same effect for the simple reason that the presence of other supporting HR practices could become vital for its complete success. Box 32.3 outlines the relevance of HR practices as market differentiators.

Competitive Advantage through HRM Practices

To ensure the effective utilization of HR, organizations must look for competitive advantage in each HR practice so that they may be developed later. We shall now see some of the HR activities that can improve competitive advantage.

HR Planning

Organisations can gain competitive advantage by quickly capitalizing on future events through effective HR planning. While devising HR plans, the organisation must consider the changes in the external environment. Then, it should identify the variety of HR skills required

in the future to tackle these changes effectively. This information relating to the future skill requirement would form the basis for decisions relating to other HR practices like recruitment, selection, training and development and compensation. In any case, the HR plans of the organisations should always focus on raising employee competence and commitment continuously. This is necessary to boost up the competitiveness of the company, retain the elite workforce and ensure better control over its own future. Absence of proper HR planning would force the organisations to become reactive rather than proactive in their response to the events that are likely to occur in the environment.⁸

Recruitment and Selection

The HR practices pertaining to recruitment and selection can also be used to gain competitive advantage. To achieve success in the hiring process, the company must make sure that it hires only those candidates whose styles and interests fit with the company's style and strategies. A careful recruitment and selection procedure is a prerequisite for ensuring the best fit between the company and its employee. In this regard, job analysis report helps the management in identifying suitable selection criteria (such as knowledge, abilities and skills) and selection devices (interviews, tests and group discussion) required to select the most suitable candidates for the job.

Recruitment and Competitive Advantage

To gain competitive advantage, the company should select a recruiting method that enables it to build the best pool of candidates in a prompt and cost-effective manner. J. J. Herring,⁹ proposed goals for a recruitment programme as depicted in Figure 32.2.

Achieving Cost Efficiency

Recruitment cost involving advertisement, travelling cost of recruiters, HR consultant fees, and the line manager's time, is usually substantial for a company. The company can achieve a competitive advantage in recruitment by opting for recruitment sources which cost less but keep the efficiency levels constant.

Attracting Highly Qualified Candidates

An organization must ensure that its recruitment efforts reach as many qualified applicants as possible. This may require innovative recruitment practices to locate the prospective candidates, capture their attention and stimulate their interest to apply for the job positions. The company should also boost the chances of the selected candidates accepting the job offers.

Improving Employee Retention

In many companies, a higher labour turnover is witnessed among those who have just joined the organization, especially within the first six months of their employment.¹⁰ In most cases, this turnover is caused by those recruiters who oversell the jobs. These acts of overselling or over-projecting the job usually create undue expectations among the applicants. These applicants, then, become disappointed after joining their jobs, once they



Figure 32.2

Competitive Advantage Goals of a Recruitment Programme

find their high expectations are impossible to achieve in the present job, and they may leave the company quickly.

In such cases, the cost of labour turnover is not just the loss of that employee but a range of organizational costs such as recruitment and selection costs, training costs, and orientation costs incurred during that period.¹¹ The organizational costs associated with the labour turnover caused by newly hired employees are usually substantial to an organization's total cost. To reduce labour turnover and the organizational costs associated with it, the applicants must be given more realistic information (both favourable and unfavourable) about the job and the company at the time of hiring. This may enable the candidates to make an informed decision about whether to respond to the job offers or not.

Ensuring Legal Compliance

The recruitment practices of a company should comply with the various laws and regulations enforced by relevant authorities. In India, several laws govern the recruitment policies and practices of an organization. For instance, Section 16 of the Indian Constitution ensures right to equality; Section 24 prevents the employment of child labour; and Section 46 deals with the education and employment of Scheduled Castes, Scheduled Tribes and other weaker sections. To avoid the charges of non-compliance and discrimination, the company must strictly adhere to the provisions of these and various other relevant laws and practices. Thereby, it can avoid costly legal wrangles and disquiet in the internal environment.

Creating and Managing Workforce Diversity

Cultural diversity is achieved when the demographic mix of the employees within the organization become much more diverse. Women, minorities, members from dual-income families, and expatriates are some of the categories of employees that make the present-day organization culturally more diverse. Certainly, a well-managed cultural diversity can bring in strategic advantage to the company as it can attract universal talent and help in building a large applicant pool, from which the best candidates can be recruited through an effective and rigorous selection process. The company can also get fresh ideas and new approaches from this ever-changing workforce to meet the diverse requirements of the modern market.

Selection and Competitive Advantage

At the end of the selection process, a company should identify the most suitable candidates who could be offered jobs. An organization can improve its competitive advantage by adopting an effective and goal-oriented selection process. If a company finds the existing selection interviews inadequate to measure the job qualities of an applicant accurately, it can improve the selection efficiency by adding a few more steps to the process like including a test or group discussion in the selection process. In fact, a company can increase its productivity considerably when the selection process picks up the best candidates to perform the jobs.

Similarly, an exact selection process can assist the company reduce or even remove the need for training. This is possible when that selection procedure identifies and hires applicants who possess all the necessary qualifications required for performing the job effectively. This can restrict the training costs of an organization.

Training and Development and Competitive Advantage

Training programmes are developed to make employees more efficient by bringing out permanent changes in their knowledge base, attitudes and skills.¹² Almost all employees, irrespective of their qualifications and skills, may require some sort of orientation training to receive the basic instructions and get acquainted with the job. Cost-effective training and development programmes can have an important bearing on the competitive advantage of a company.

Candidates generally prefer companies that offer them excellent training programmes. Besides, employees view training as an important source to keep themselves abreast with the technological changes. They also view training as a way to keep building on their skills. Thus, an effective training programme can attract the best people to the company.

Training and development programmes can be used to develop the job skills of the existing employees, thereby enhancing their job performance. Further, they can re-educate the employees to enable them to undertake new job responsibilities. The training and development of underperforming employees can also reduce their unnecessary termination due to poor performance. Besides, an efficient training programme can control the attrition rates by strengthening the workers' loyalty.

Performance Management and Competitive Advantage

A performance evaluation system must accurately assess the performance levels of the employees. In fact, an efficient performance evaluation technique can improve competitive advantage by focusing attention on the workers' efforts toward the achievement of organizational goals.

A good appraisal system can also motivate employees by identifying, recognizing and awarding the good work done by them. It also lets the workers know what the management expects from them. Moreover, an appraisal system can help the managers enhance the workers' performance by identifying and removing their performance deficits. Finally, an effective performance evaluation technique used to determine employee promotion can increase competitive advantage by ensuring that the promoted employees are really fit to undertake the increased responsibilities of the new position.

Compensation and Competitive Advantage

The compensation plan of a company has a far-reaching impact on its efforts to gain competitive advantage. No single cost of business is more controllable and has a greater influence on profits than labour cost.¹³ An effective compensation system can improve cost efficiency. Since labour cost normally represents the major portion of its budget, a company can achieve cost leadership in the market by reducing these costs effectively and, thereby, gaining competitive advantage.

Compensation packages also play an important role not only in attracting the best candidates but also in retaining the efficient employees. Understandably, when a company's compensation system is seen as insufficient, good applicants may reject its job offers and the existing employees may opt to leave the organization.¹⁴ Even the remaining employees of the company may become less motivated and uncooperative.

Employee Safety and Health and Competitive Advantage

An organization has the moral responsibility to ensure the safety and well-being of its employees. Sound HR policy and practices that support the safety and well-being of its employees can also help the company in getting competitive advantage. For instance, adequate safety measures and health schemes not only protect the employees against accidents, injuries and ailments but also save the cost of compensation payable by the company due to the absence of accidents. Besides, the company can save medical and insurance cost, survivor benefits, lost wages, damaged equipment and materials, production delays, other work-time losses, selection, and training costs for replacement workers and accident reporting.¹⁵ Proper safety and health practices that ensure the well-being of the employees at the workplace can also keep absenteeism, attrition and medical expenses under control.

Industrial Relations and Competitive Advantage

Labour-management relationship is very important to workers. When the workers perceive the employers as being insensitive to their needs and when they are helpless to redefine their

job conditions, they often seek the help of the unions to represent their cases more forcibly. The union will provide workers a voice in shaping the employment relationship. However, an organization, by maintaining a harmonious relationship directly with the workers, can create a union-free environment, which, in turn, can help the employers' contain the HR-related cost. Generally, the costs of operating in a unionized environment are much higher due to higher salaries and more generous benefit plans than in a non-unionized environment.¹⁶ Thus, an organization can achieve competitive advantage in HR costs by avoiding a unionized environment through fair and just HR practices, which will keep the employees satisfied.

Lastly, it is difficult to state precisely the HR practices that help organizations gain competitive advantage, yet a few specific HR policy measures (see Box 32.4) can offer definite help in developing competitive advantage in the market. Box 32.4 outlines the select HR practices that can enhance organizations' competitive advantage.

Box 32.4

HR Policy Measures and Competitive Advantage

Effective HRM practices that strongly facilitate the organizations in building competitive advantage in an intensely competitive market environment are:

Job Stability

It is imperative for an organization to provide job security to its employees to achieve competitive advantage. Permanence of employment can remove the persistent uncertainty of employees about their future in the organization. It can also improve employees' loyalty, motivation, and commitment towards the organization. This practice eventually commits both the employer and the employees to work for their mutual interests on a long-term basis.

Rigorous Selection Process

The goal of recruitment of any organization is the selection of the right employee at the right time. To accomplish this strategic goal, an organization needs to develop an infallible selection procedure. Indeed, an effective selection process brings not only the best people but also keep the attrition rates under reasonable limits.

Competitive Compensation Packages

It is pivotal for an organization to fix market-oriented and competitive pay packages for its HR. Through competitive wage offers, a company can recruit the best people and retain them with ease. The incidental advantages of effective compensation packages are the low labour turnover rate, and the creation of feel-good factor

among the potential candidates about the company in the labour market.

Performance-Linked Incentive (PLI)

With an increased level of awareness, the modern-day employees consider it their right to claim a share in the profits of the company. Thus, the organizations are now compelled to divide their profits with the employees in the form of performance-linked incentives and other profit-sharing schemes. In fact, those organizations that fail to implement such schemes often get less than desired co-operation from their employees.

Enhancement of Employees' Stake

To enhance the employees' involvement and commitment, many organizations are offering innovative schemes with the intention of making employees part owners of the company. In this regard, ESOP (Employee Stock Option) scheme is a popular mode adopted by a company to issue its shares to its own employees.

Exchange of Information

Those organizations that maintain effective communication with their employees usually enjoy better patronage and cooperation from them. When a sufficient amount of information about their goals, productivity and profitability are shared with their employees, organizations can hope to have healthier industrial relations and improved employee cooperation.

Workers' Participation in Management

When the organization decentralizes its decision-making authority, it clearly brings in more people into the decision-making process. This process of decentralization of the decision-making authority promotes team spirit, empowerment and commitment among employees. Decentralization and empowerment also enable the employees to plan, execute and control their own work with little external intervention and supervision.

Effective Team Building

Organizations with cohesive teams usually achieve greater success in goal accomplishments. This is because the groups make a decisive influence on the attitude, behaviour and performance of the employees. Similarly, team-building measures in the form of group incentives, group autonomy, training and group control bring in a more positive outcome for an organization.

Investment in Training

Training and development is an exhibition of commitment on the part of an organization in the career growth of its employees. Training helps employees in acquiring core competency, which, in turn, improves their potential in performing the jobs more effectively.

Job Rotation

It refers to training employees in various jobs of the organization through job rotation policies. When people acquire the ability to perform different tasks, it actually enhances the mobility of these employees and provides organizations with a better flexibility in planning and executing work.

Practising Equality

When an organization ensures fairness and equality of treatment among its employees, it can vastly improve the unity and sense of belonging among them. For instance, provision of common dining facilities, rest rooms and parking lots, irrespective of the stature of employees, can contribute immensely to the philosophy of social equality.

Pay Parity

In many organizations, a pay disparity usually causes intense personal rivalry among employees with a

demoralizing effect on their performances. When the size of the pay differences among employees is kept within reasonable limits, it can restrain the interpersonal rivalry among them and raise team spirit and cooperation.

Emphasis on Internal Promotion

When more employees are selected from within the organization for filling job vacancies, it can greatly improve the morale and cooperation of the employees. Policies favouring internal recruitment can create conducive work environment within the organization.

Persistent Efforts

Organizations must realize that there is no short cut available to achieve competitive advantages in the market. It often requires painstaking and sustained efforts to achieve competitive advantages. The HR aspects pertaining to job permanency, competitive pay scales, adequate training and development, are a few of the pragmatic and enduring approaches in gaining competitive advantage rather than the temporary cost-cutting measures.

Evolving HR Metrics

Companies should evolve a mechanism for assessing the practices that are critical to achieving competitive advantage. A proper evaluation technique requires scientific yardsticks for assessing the efficacy of HR practices in ensuring desired employee attitude and behaviour, accomplishing performance goals and measuring success of various HR initiatives. In due course, these measurements provide the company and its employees with the necessary feedback about individual and group performances against pre-determined standards.

Harmonization of Different HR Practices

The success of goal accomplishment efforts depends on the extent to which individual HR practices are in agreement with one another and are synchronized with the overall mission and vision of the organization. In fact, an effective mechanism for pooling of various individual HR practices into one logical unit is essential for the overall success of the organization and for the efficient management of people

Adapted from *Competitive Advantage Through People: Unleashing the Power of the Workforce* by J. Pfeffer (Boston, MA: Harvard Business School Press, 1994).

International HRM and Competitive Advantage

International HRM is actually a process of hiring and deploying people in organizations that operate globally. Usually, in multinational operations, the HR managers strive to achieve competitive advantage by employing the expatriate employees efficiently.

Whenever an organization has to fill the vacancies arising in overseas subsidiaries, it has to decide whether to choose an expatriate or a person of the host country. Usually, organizations distribute the vacancies between these two segments. However, companies often look at expatriates as a source of competitive advantage. Expatriates can help the companies gain competitive advantage by facilitating: (i) effective succession planning, (ii) greater coordination and control, and (iii) timely and effective information sharing. We shall now see these three aspects in detail. Box 32.5 outlines the relevance of international experience in building competitive advantage.

Effective Succession Planning

Nowadays, it is almost imperative for the future leaders of the modern-day business enterprise to have a wide international exposure. Organizations often use overseas assignments to groom the expatriates for future managerial positions. In several cases, they emerge as the most suitable candidates to meet the requirements of the management due to their wide and varied overseas experience. Deputing employees to an overseas assignment in a way becomes on-the-job training for the future top managers of the company. Thus, organizations can achieve competitive advantage by keeping those managers who are familiar with the different dimensions of international operations at the top decision-making levels of the management.

Greater Coordination and Control

The presence of expatriates in foreign subsidiaries can facilitate better understanding and coordination between the corporate headquarters and its subsidiaries. Organizations can gain competitive advantage through expatriate managers by employing them for specialized operations like execution of mergers and acquisitions, undertaking market expansion programmes, bringing in new technologies and synchronizing the corporate goals with the goals of overseas subsidiaries.

**Box
32.5**

Developing Competitive Advantage: A CRISIL Approach

When organizations globalize operations, it is imperative for them to select, train, compensate, and develop employees to function in a cross-cultural environment. Similarly, when successful organizations cross borders and set up subsidiaries overseas, they should be careful in retaining their competitive advantage. They should not superimpose the home-country models of HR practices on the host countries just because these were successful at home. They ought to understand the culture of the host country and adopt a model which does not contravene the prevailing environment. Thus, it is necessary to train the managers in the host-country environment.

For instance, CRISIL, a leading credit rating agency in India and an affiliate of Standard & Poor's, has programmes to expose the employees to a cross-cultural environment. Its affiliation has helped its employees get high-quality training and skills, besides benefiting from the international exposure through secondments (detachment of a person from the parent organization for temporary assignment elsewhere), training and international assignments. CRISIL's acquisition of UK-based firm EconoMatters has provided several opportunities for its people to work in the UK and to learn the host country's cultural environment.

Adapted from <http://www.crisil.com/crisil-careers/careers.htm>.

Timely and Effective Information Sharing

Organizations may use expatriates in overseas assignments as a reliable and vital source for gathering critical information for updating their global plans and operations. Since the constant and effective flow of information is a prerequisite for a timely response of the corporate head office to the emerging prospects and problems of its subsidiaries, expatriates may be better suited for such timely and sometimes informal information sharing. Similarly, when the expatriates return from overseas operations, they can share their knowledge and experience with those in the headquarters who may require it for decision-making reasons.

To conclude, whether it is in domestic or global operations, the HR managers' key role in gaining competitive advantage is irrefutable. They should ensure the cooperation of the employees for all the efforts of the company in achieving HR-based competitive advantage. At the same time, they should also ensure justice for the employees in all their dealings with the organization. In essence, they should act as honest and trusted intermediaries between the management and the employees the future of the company is tied to their actions and performance.

Summary

1. Competitive advantage is defined as a unique position in the market achieved through factors that enable a company to consistently do better than its competitors.
2. The hard version of HRM views people as one of the factors of production and a cost that should be controlled, while the soft version of HRM focuses on commitment strategies to ensure that highly skilful and reliable employees get the organization the requisite competitive advantage.
3. Organizations require competitive advantage to stay in control of the market, play a dominant role in the industry, engage in a proactive role in the market, ensure a better fit between company and employees, improve the efficiency of operation constantly, lower the cost of production, and focus on research and development to retain competitive strategies.
4. The three methods of developing competitive strategies are developing new strategies, managing changes, and establishing strategic integrity.
5. A company can gain competitive advantage through several HR activities like HR planning, recruitment and selection, performance management, compensation management, employee safety and health, and union-management relationships.
6. International HRM is a process of hiring and deploying people in international organizations, which operate globally.
7. An organization can achieve competitive advantage through expatriates in the form of (i) effective succession planning, (ii) greater coordination and control, and (iii) timely and effective information sharing.

Review Questions

Essay-type questions

1. Discuss the different HR practices that provide a scope for developing competitive advantage.
2. What are the 16 HRM practices advocated by Pfeffer that enhance competitive advantage?
3. Examine the role of international HRM in developing competitive advantage.
4. Explain the effective HRM practices that can ensure a competent workforce critically.
5. Describe the three ways through which an organization can improve competitive advantage.

Skill-development Exercise

Objective – The objective of this exercise is to show you how to evolve and apply HR policies effectively to convert the human resources into a source of competitive advantage for the company.

Procedure Note – The class is divided into groups. Each group has: (1) an HR manager, (2) two HR team members, (3) two union representatives, and (4) two observers of the meetings. The role of the observer is to observe the various aspects of the role-playing sessions and report on them.

Situation

Nuroflex Continental is a five-star hotel in a metropolis. Of late, this hotel has been facing intense competition in the market after one of India's famous hotel groups established a unit in its vicinity. With the advantage of large-scale operations and a well-trained and efficient workforce, the competing hotel group can offer its services for much lower tariffs. To add to Nuroflex's woes, the entire hospitality industry has been under increasing strain due to the general economic slowdown and its impact on travel and tourism.

Intense competition in the market coupled with a negative global trend, tighter budgets, and shortage of right talents

in the market, have all forced the organization to look at HR as the potential competitive advantage for this hotel in the future. It asked the HR manager to devise programmes to help employees reach their full potential and achieve cost-effectiveness in every HR activity of the company. Besides, the HR department was also instructed to develop dynamic HR policies to enable the company to respond to the rapidly changing market conditions in order to remain competitive and grow even in the difficult situation.

Steps in the exercise

There are three steps in the exercise:

Step 1: The HR manager meets the union representatives to ascertain their views on the changes to be made in the HR policies.

Step 2: He convenes a meeting attended by the two HR team members to finalize the changes to be incorporated in the HR policies. The updated HR policy will subsequently be sent to the top management for approval.

Step 3: The observers analyse the performance of the members in the role-playing session and give their feedback.

Case Study

Vinoth Suitings is a large, multi-site textile company with a national presence. It has seven production units in different places. It has an average annual turnover of Rs 9 billion. It is engaged in the production of branded wearing apparel and has 2,800 employees on its roll. Its existing HR policy takes good care of the requirements of the employees. Till recently, it was having a smooth sailing in the market as the competition was limited and the economy was performing well.

However, everything changed in the recent past with the intensified competition in the market due to the entry of low-cost producers in the field. Soon after, recessionary trends also set in the economy. Understandably, the sales and profit of the company came under increasing strain. The company went on the defensive and began to look for all possible means to adopt cost-cutting measures. Since the labour cost typically represents 45–55 per cent of the operational cost of the textile industry, the Vinoth Suitings management thought that the most prudent response would be an immediate reduction in wage costs.

However, the HR manager, Mr Antony, disagreed with the idea of wage reduction for the employees on the ground that these measures can affect the cordial relationships prevailing in the organization. He strongly believed that the climate of mutual trust built and sustained by the HRM policies and practices of Vinoth Suitings could be affected by these negative developments. He also felt that a happy workforce was a productive workforce and, thus, an organization should put its loyal employees ahead of even the customers. Therefore, Mr Antony suggested an alternative proposal to the management, which recommended reduced wages only for the new employees as per the prevailing labour marketing conditions and spared the existing employees of any wage cut. Although his proposal may not help the organization in cost-cutting, especially in the immediate future, he exuded great confidence that it would definitely help the organization in the long run as it could reinforce the confidence of the employees in the organization and thereby make them more loyal and productive. In the long run, the company could also

achieve competitive advantage through its efficient and reliable workers.

Meanwhile, other well-known competitors in the market responded to the market conditions by resorting to wage reductions after forcing the unions to agree to their proposal. In many cases, employees were brought under tremendous pressure to accept the wage reduction, which was in some cases as high as 20 per cent. After wage reduction was successfully implemented, the quarterly result of these companies showed an improved profit.

Questions for discussion

1. How do you sum up the whole situation prevailing in the textile industry?
2. Compared with the competitors' strategy for tackling the slump in the market, how do you assess the proposal of the HR manager of Vinoth Suitings?
3. If you were the HR manager of Vinoth Suitings, what would your response be?

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