

Human Resource Management Practices and Organizational Competitive Advantage: A Survey of Earlier Researches

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Abstract: *In today's organizations, human resources, their skills, knowledge and competencies as well as synergy among them, become the most valuable asset, the new source of wealth, and the key ingredient of competitive advantage. In other words, in a world in which all work is knowledge work and intellectual capital is very important for economic success, it is very much logical to state that the ability to attract, retain, and use the talents of people provides a competitive edge to most of the organizations. The aim of this paper is to identify the relationship between human resource management practices and competitive advantage of organizations. This paper identifies a positive relationship between human resource management practices and organizational competitive advantage. And also finds that human resource management practices in modern organizations have two very important roles, one is to foster the performance of an organization and the other is to act as a support for achieving competitive advantage through people.*

Keywords: human resource management practices, HRM, HRM practices, organizational competitive advantage, organizational performance.

1. Introduction

Human resource management is defined as a process whereby all activities help to manage people and resources in order to make them work successfully, accomplish the organizational goals, and make sure that they go in the same direction as the organization. Human resource management is considered as the driving force behind the stimulating effect on competitive advantage and performance of organizations (Deshpande and Golhar, 1994). There is a broad consensus about human resource management having a positive relationship with organizational performance and its competitive advantage (Guthrie *et al.*, 2004). Some studies only measure human resource management and performance indicators e.g. profit, productivity etc. in the hope to find a positive relationship between the two. When an organization sustains profits that exceed the average for its industry, the organization is said to possess a competitive advantage over its rivals. The goal of much of business strategy is to achieve a sustainable competitive advantage. An organization can gain competitive advantage if it is able to create value for its employees and, its buyers. If a firm wants to pursue the strategy of cost leadership, it has to be the low cost producer. A firm may gain cost advantage through economics of scale, proprietary technology, cheap raw material, etc. The strategy of differentiation means offering a different product, a different delivery system, or using a different marketing approach. And it is up to the management of the company to decide which factors it wants to emphasize in order to gain competitive advantage (Porter, 1985).

2. Human Resource Management Practices in Organizations

According to study of Farh (1995), it is noted that, in the past few decades, large sized private enterprises have gradually established HR systems and learned HR techniques from foreign owned companies. Many research studies find that HRM practices in large organizations are more formalized and structured than smaller firms (Huselid, 1995; Delaney and Huselid, 1996; Delery and Doty, 1996). A study shows that there are no significant differences in the adoption of HRM by the larger Taiwanese owned firms and foreign subsidiaries. Also with the increase in the subsidiaries and JVs from Japan and Western countries, large sized and SOEs in Taiwan are, gradually establishing Western HRM practices (Shyn-Jer Chen, 1997). Small sized firms lag behind large sized organization with respect to HRM implementation due to lack of resources and government support as well as leadership competence and attention (Stavrou-Costea and Manson, 2006). There are positive effects of formalized HRM practices on the profitability of large firms at the system level i.e. when they firms with innovative systems to firms with traditional systems, they find no major effect when an individual HRM practice is introduced by a firm (Ichniowsky and Shaw, 2003). A research conducted by Singh (2003) identifies that four individual HRM practices like performance based compensation, information sharing, selection, and promotions based on merit are highly related to all the measures of objective firm performance. Chee-Yang Fong *et al.*, (2011) conducted a study to identify the association between HRM practices and knowledge sharing in the Malaysian industry context and finds that HRM practices like recruitment, selection, training and development,

teamwork, and performance appraisal are positively related with knowledge sharing as perceived by the managers in the manufacturing and service organization. Kamble (1998) findings showed that most of the small units are depend on existing workers or advertisement for recruitment purpose. Results also revealed that majority of the firms do not have HR planning, promotion policy and training & development programmes for the employees. A study conducted on HRM in small firms in hotel industry finds that there is no written personnel policy and recruitment is done on the basis of personal approach considering employees' readiness to accept the salary offered. Results show that there are no formal leave rules and labour turnover is very high in small enterprises (Panda, 2000). A large majority of the SME units do not have HR policies, training & development policies and do not have personnel department too. This study observed that recruitment is done on temporary basis and contacts & walk-ins were the main sources of recruitment. Employees are evaluated on the basis of their productivity and behavior (Eresi, 2001). There is considerable diversity amongst SMEs in relation to their use of HR practices (Cassell *et al.*, 2002). Hornsbay and Kuratko (2003) results showed that there is little advancement in the human resource function of smaller firms over the last ten years in USA. SMEs are not able to give to their employees what they want from their job like career development and participation in decision making. Results has also identified that women in these organizations received different treatment than men, resulting into imbalance within the workforce (Szamosi *et al.*, 2004). A study on 89 Vietnamese small firms on the level of formality as a dimension of HR management has found that firm size is closely associated with HR formality and HR formality has positive relation with owners' perception of firm performance (Nauyen and Bryant, 2004). Sels *et al.*, (2006) concluded that the high intensity of HRM in organization is helping in stimulating the firm profit. On the basis of the data collected from 18 small business units of pharmacy sector in Andhra Pradesh, Jyothi (2004) has found that news paper advertisements, consultants and referrals are the sources of recruitment. This study also noted that small scale units do not have any employee promotion policy. Evidences noted that most of the firms made use of performance appraisal and training programmes. King-Kauanui *et al.*, (2006) conducted a study on a sample of 200 Vietnamese small and medium sized enterprises and finds that there is a positive relationship between HRM practices like training, performance appraisal, and incentive compensation.

3. Human Resource Management Practices and Competitive Advantage

Competitive advantage is perceived as a very important concept because it defines the 'uniqueness' of an organization vis-à-vis its competitors. A number of writers have focused on importance of competitive advantage for organization's success (Barney, 1991); important potential resources classified as financial, physical, legal, human, organizational, informational, and rational (Hunt and Morgan, 1995). A study conducted by Prahalad and Hamel (1990) noted that the ability in developing superior core competencies of the organization resides in combining the

skills of human resources with other resources of the organization. It is said that the competitive strategy of the firm is the roadmap that shows the way to gaining sustainable competitive advantage by the firm. Thus, competitive advantage depicts a company's competencies and its capability to survive against the factors prevailing in the firm's external environment. Therefore, gaining competitive advantage entails a set of specialized skills, assets, and capabilities for the organization.

4. Conclusion

Everyone acknowledges that people are the key assets in the new world market, and that all other assets are nothing more than commodities that can be purchased at market prices, because only the human asset has potential to learn, grow, and contribute (Fitz-enz, 1995). So, every firm is required to improve the quality of its human resources on the continuous basis. To create a sustainable competitive advantage, firms have to be employees' need oriented and apply formalized human resource management practices for the effective management of human capital of the organization. The internal resources and capabilities of the organization that are a source of competitive advantage over rival firms are collectively known as the core competency of the organization. Therefore, to keep this advantage, the firms have to adopt continuous evolution, which should be comfortable from an organizational point of view. Internationally, to succeed it is required to be able to convert a domestic position into a global one.

5. Future Research and Scope

Earlier studies reviewed in this paper are still inefficient and much more work is needed in order to understand how human resource management practices will lead to the competitive advantage in organizations. Comprehensive researches can be conducted on the area discussed above. Researches on this area will surely help in encouraging decision-makers to invest heavily in different human resource management practices, programs and endeavors, as there is growing evidence that human resource management practices influence organizational performance and enable enterprises to be competitive because of their people. There is a need for an extensive and meaningful range of investigations for human resource management researchers to inspect the future development and improvement of human resource management practices in increasing the competitive advantage and performance of organizations.

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