

# **The Strategic Use of Human Resources**

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### **About the Author**

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Mr. Brown is currently working on a Doctor of Science in Information Systems degree from Dakota State University and has previously earned his MBA from the University of Texas at Dallas with specializations in Strategy and Project Management, an MS in Electrical Engineering from Oklahoma State University and a BS in Physics from Southwestern Oklahoma State University.

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# The Strategic Use of Human Resources

## *Introduction*

This paper provides the author's views on the essential human resource activities that must occur to ensure growth and success within an organization. In addition, a review of human resource function in organizations and the use of these resources to create sustainable competitive advantage are covered in this paper.

## *Human Resources Defined*

Human Resources (HR) has been given many definitions over the years, but the two most popular definitions given by the *American Heritage Dictionary* are "the persons employed in a business or organization"(Houghton Mifflin Company [HMC], 2000) and "the field of personnel recruitment and management"(HMC). Both definitions fail to provide the key insight into the power of HR policies, strategies and quality personnel to be able to create substantial competitive advantage for an organization.

The HR field has changed dramatically from the original HR departments of the early and mid twentieth century to today. These original HR departments (called personnel departments at the time) existed primarily to hire new employees and administer employee benefits. The latter half of the twentieth century found HR departments morphing into more of a strategic group that could provide much more value and competitive advantage by helping companies deal with ever-changing business environments.

In the past, the HR department was viewed as an operational entity that handled the day-to-day activities of paying employees, administering benefits, hiring new employees and other operational activities. There are still many companies who consider the HR group within an organization to be a necessary overhead that must be incurred to run a business. Utilizing the

HR department in this manner will probably allow an organization to run effectively, but it will be very difficult to create the necessary synchronicity between corporate strategy and HR that is needed to create any advantage in the marketplace with the human capital within the organization.

Organizations have realized that their success is dependant on their ability to hire, develop and keep quality employees. Robert Reich explains that “to attract and keep talented people, companies today are not just experimenting with how they approach the competitive marketplace of goods and services; they are also experimenting with how they approach the competitive marketplace of talent” (Reich, 1998). Reich expands on how companies are experimenting with new methods of defining the relationship between employer and employee when he states:

Companies are experimenting with a new operating system for the employer-employee relationship - one to replace the old set of practices that put employers and employees on opposite sides of the table. The model for the organization of the future aims to create tangible and intangible value that both sides can share and enjoy. It accepts as a core reality - rather than as a pleasant fantasy - the old saw that a company's people are its most important asset. And it builds on that reality to create a way of working that is profoundly human and fundamentally humane (Reich, 1998).

To compete in the ever-changing environment of business today, organizations must create ways to engage their employees in the success of the organization. In the past, employees were loyal to their employer and could count on their employer providing a paycheck to them as long as they did what was asked of them. This is no longer the case after the emergence in the late twentieth century of reengineering, layoffs and outsourcing initiatives that have taken over

corporate life. Employees can no longer count on their employer to provide for them; therefore, they no longer have long term loyalty to that organization. It is for this reason that organizations must find a way to engage their employees in the success of the organization while at the same time providing value to the employee so that they feel a connection and remain with the organization.

To engage employees, HR must create value for their employees beyond a paycheck. To do this, the employee must take on a role that highlights their value to the organization and the organization's marketplace. In order to do this, the organization's human resources must be utilized in such a way to get the greatest benefit to the employee and employer. To get the greatest benefit from their employees, an organization should take the view that HR is more than an operational entity and that HR an human capital can be utilized in a strategic manner to achieve as much of a competitive advantage as possible.

### ***The Strategic Use of Human Resources***

#### ***Human Resource Management***

In order to hire and retain quality personnel, organizations have begun implementing Human Resources Management (HRM) strategies and policies that ensure that the organization and its employees are positioned to create a high-performing and successful business. HRM strategies must be implemented in such a way that they are tightly integrated with business planning and the executive decision making processes and the organizations goals. Author Ronald Sims states it perfectly when he writes:

A closer integration between top management's goals and HRM practices helps to elicit and reward the types of behavior necessary for achieving an organization's strategy. For

example, if an organization is planning to become known for its high-quality products, HRM staff should design appraisal and reward systems that emphasize quality in order to support this competitive strategy (Sims, 2002, p. 4).

### ***Human Resources as a Strategic Partner***

To create competitive advantage via HRM, an organization must view the HR department as a strategic partner. In order for HR to become a strategic partner, an organization must move past the old mentality that HR is a ‘necessary evil’ and begin to view HR as a method for creating strategic advantage. Two possible methods of doing this are:

- **HR as an adaptable entity** - The first method takes the view that the HR department’s role should be to adapt itself to fit into an organization’s strategic vision. To do this, the HR department must adapt the HR policies and practices to fit the organizations goals and strategic direction and to support the efforts at creating competitive advantage.
- **HR as a full-fledged strategic partner** - The second method takes the view that the HR department becomes a full-fledged strategic partner within an organization. This view allows for the HR group to become part of the planning, implementation and management of an organization’s strategic goals. Within this type of environment, the leadership of the HR group is involved in creating the strategic goals of the organization to ensure that the organization has the ability to quickly and effectively adapt itself to meet whatever challenges that might arise in while striving to reach the set goals.

The above methods for integrating the HR department into more of a strategic partner within organizations seem to be gaining popularity and are becoming more prevalent. Many

studies have been completed and new areas of HR research are opening up that are creating frameworks for the strategic use of HR.

### ***Strategic Human Resource Management***

One concept that emerged in the late twentieth century that calls for a strategic partnership with HR is the concept called Strategic Human Resource Management (SHRM). SHRM has been defined as “the linking of HRM with strategic goals and objectives in order to improve business performance and develop organizational cultures that foster innovation and flexibility” (Truss & Gratton, 1994). In the SHRM view, the functional and operational aspects of an organization’s HR group are still important and necessary, but the HR group is also considered to be a partner within the organization and is involved in developing strategy. The strategy developed from this partnership provides a framework for HR activities that assist the organization in creating a high performing workforce that is motivated and happy.

The SHRM concept is a powerful concept if applied correctly within an organization. HR groups are able to plan for future growth and respond to any changes that may occur. In addition, SHRM allows companies to fully utilize their human assets to create real advantage over their competitors. This advantage comes from having the HR policies and strategies perfectly aligned with the corporate goals so that the organization has the right human capital, right benefits packages and training methodologies to allow the employees to effectively do their jobs.

In short, SHRM allows an organization to create a competitive advantage with their human assets by aligning their strategic goals with their HRM systems. Author Ronald Sims states it clearly when he writes:

Successful organizations in the future must closely align their HRM strategies and programs with the external opportunities, competitive strategies, and their unique characteristics and core competence. Organizations that fail to clearly define HRM strategy or competitive strategy that explicitly incorporates human resources will not be successful (Sims, 2002, p. 30).

### ***Creating Competitive Advantage with HR***

In order to remain in business, a company must make a profit over the long term. To do this, the company must create some type of competitive advantage in their marketplace. Competitive advantage was defined by Michael Porter in his seminal book *Competitive Advantage* and is paraphrased here as “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”(Tutor2u.com [T2U], n.d.). Sims provides another definition of competitive advantage as “any factor that allows an organization to differentiate its product and service from those of its competitors to increase market share” (Sims, 2002, p. 24). According to Porter, there are two basic types of competitive advantage; cost advantage and differentiation advantage (Porter, 1995). Cost advantage can be created when an organization provides the same products or services at a lower production cost than their competitors while a differentiation advantage can be created when an organization attempts to create an offering that is unique to the marketplace.

An organization’s HR policies can provide a great deal of value while attempting to create competitive advantage. HR policies can be implemented that help an organization to focus hiring policies, benefit packages and other policies to ensure that the strategic direction that the company is undertaking is supported by the HR group. For example, if an organization

is attempting to gain a competitive advantage by undertaking a cost leadership strategy, the HR group can implement policies to ensure that employees are as productive as possible. Another example is if an organization is attempting to gain competitive advantage using the differentiation strategy, HR policies can be implemented that ensures that employees and new hires are trained and motivated in such a way as to ensure that the differentiation strategy can be met from a human asset standpoint.

In order to maintain the competitive advantage, an HR group must remain committed to the employees and must work to increase the employee's commitment to the organization (Sims, 2002, p. 29). This commitment is a necessary step in creating competitive advantage because it ensures that there is buy-in from the employees and this buy-in is critical to ensure that morale is maintained and the quality is maintained.

### ***Conclusion***

The HR function within modern day organizations must be more than an operational entity and must find ways to create an engaging environment for employees. In addition, the HR group must be considered a partner in an organization so that the strategic goals can be built into their HRM systems and the HR department can set goals and objectives accordingly.

To be successful in today's fast changing environment, an organization must find a way to create competitive advantage over their competition. An organization can attempt to create an advantage using cost or differentiation and in order to be successful at this, the right people must be in place. To ensure that the right people are involved, the HR function must be involved as a strategic partner to ensure that the organizations human assets are utilized to their fullest extent to create a sustainable advantage for the organization.

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