

HR is Business: Achieving competitive advantage through strategic talent management

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Abstract:

All organizations, whether in the public or private sector, aim to achieve strategic objectives. This requires a clear understanding and linkage between these strategic goals and the key capabilities required for their achievement. To achieve sustainable competitive advantage organizations need two kinds of capabilities:

- Non-contingent capabilities are those capabilities which every organization needs, in varying degrees, such as ‘effective financial management’. These are the basics that will enable an organization to be “just as good” as its competitors.
- Differentiating capabilities are those that distinguish one organization from another and can provide real competitive advantage.

Many HR activities (including standardized competency frameworks and talent processes) aim to develop non-contingent capabilities but these can only meet the basic requirements for future strategy and are often un-related to the strategy itself. As a result, very few HR plans address the real need to achieve competitive advantage through differentiating capabilities. In effect, most HR plans aim to develop people who are competent in the same areas as their competitors which clearly cannot enable competitive advantage. This may be the major reason why HR functions have generally failed to clearly link their activities to the achievement of business strategy.

This paper first defines ‘strategic differentiating capabilities’ and then describes a process for identifying and creating such capabilities through effective talent management processes. This process provides the key link between strategy and talent management, allows HR practitioners to impact organizational strategy and demonstrates that ‘HR is business’.

Keywords: Talent, Capabilities, Strategy, HR, Human Capital

Practitioners and academics have, for many years, been trying to demonstrate the importance of human resources to the achievement of business strategy - and the critical relationship between the two. This requires a clear demonstration of a link between human resources (as a specific type of organizational capability) and the achievement of sustainable competitive advantage. To achieve sustainable competitive advantage, organizations need two kinds of capabilities:

- Non-contingent capabilities are those capabilities which every organization needs, in varying degrees, such as 'effective financial management' or 'leadership'.
- Differentiating strategic capabilities (DiSCs) are those that distinguish one organization from another and can provide real competitive advantage.

Unfortunately to date, many HR activities (including competency frameworks and talent processes) aim to develop only non-contingent capabilities - but these can only meet the most basic requirements for future strategy. Very few HR plans address the real need to achieve competitive advantage through DiSCs. This may be the major reason why HR has generally failed to clearly link its activities to the achievement of business strategy.

This paper proposes an approach to the development of DiSCs, derived from the resource-based view of the firm (RBV). There is an increasing body of literature dealing with this subject, by writers exploring the dynamic nature of resources (e.g. Teece *et al* [20]) and others providing models of the formation and structure of resources (e.g. Kamoche [9], Mueller [12]). There are still important dilemmas and debates in both RBV and Human Resource (HR) theory, both of which are evolving models, where empirical research is hampered by the lack of agreed theoretical frameworks or a clear research agenda. In particular, this paper proposes, and illustrates through a case study, an approach to the creation of DiSCs and the strategic treatment of human resources. In the process, the case study illustrates how a specific DiSC was identified and developed as a source of sustainable competitive advantage for a major bank.

The main purpose of this paper therefore, is to present a framework for organizations to create DiSCs integrated with their strategic goals.

The paper first reviews the basic tenets and dilemmas in theories of RBV and HR followed by a report on the illustrative case. A method for identifying and building differentiating strategic capabilities is then described. The conclusion briefly returns to the main dilemmas and summarises the framework proposed in the paper and the research question raised.

The Resource Based View (RBV) of the firm has proven to be a highly influential theory of strategy, the main principles of which have been developed in important papers published since the mid-eighties (e.g. Barney [2] and Peteraf [13]). Although there have been criticisms of various aspects of the theory (for example Foss [4], Foss and Knudsen [5]. and Mosakowski and McKelvey, [11]) to which we shall return, the basic tenets are that firms can achieve sustainable competitive advantage through owning and deploying valuable and (more or less) unique resources (DiSCs).

The criteria variously described as necessary for resources to be sources of sustainable competitive advantage (which, in the context of this paper, I describe as DiSCs) include:

- Strategic value – The resource has to add real advantage in an area of strategic importance.
- Rare – So that unique advantage is conferred.
- Inimitable – So that competitors, having recognized a source of advantage, are unable to copy it.
- Non-substitutable – So that competitors cannot simply substitute a different resource for the one which confers advantage.
- Appropriable - the degree to which the firm really owns and can appropriate the value of the resource.
- Immobile – So that competitors cannot simply acquire the resource.

The criterion of inimitability has been the particular focus of much debate and will be explored further. Proposed limitations to imitation include:

- Causal ambiguity - where it is difficult to analyze or understand how a capability was acquired or developed,
- Path dependence - where the evolution of a capability is over a long period and in a specific context, which again makes imitation difficult and
- Interconnectedness of assets - where the formation or value of one resource depends on its relationship to other factors in the firm. The complex set of interrelationships and their context again makes the resource difficult to imitate.

The criterion of ‘Appropriability’ is particularly important where people are the resource in question, as employment contracts do not confer real ownership over the individual (and thereby any human resource s/he may represent). Grant [6]) makes the point that strategic value lodged in a few people is therefore a high risk (and cannot provide sustainable advantage) as they can leave or alternatively bargain away most of their value. In knowledge intensive firms this is a particular issue and is highlighted by situations where key executives leave after acquisitions, taking major client relationships with them.

RBV has also been accused of taking an internal (endogenous) perspective, in contrast with market led (exogenous) strategic theories (such as Porter [14]). This criticism implies that an RBV strategy would simply identify some internal strength and then deploy it with no regard for market conditions. It is in fact; clear that the characteristics of ‘rare’, ‘unique’ and ‘valuable’ can only be defined in terms of the competitive market. Competitive advantage is achieved when distinctive capabilities are applied in a particular industry and brought to a particular market (Kay, [10]). Many of the criticisms of RBV assume it is a static system, unresponsive to markets and competitor forces. These criticisms have largely been answered through the concept of dynamic capabilities (Helfat *et al* [7]), which suggests that firms continuously review and

recreate their strategically important capabilities to meet changing market forces. The ability to change and remodel capabilities is thus a source of competitive advantage in itself. It is a small logical step to then suggest that, instead of applying existing DiSCs to market situations, firms could apply RBV to identify and build new DiSCs necessary to achieve strategic goals in the context of market and competitive forces. The obvious flaw is that if one firm can build such capabilities then they must be relatively easy to copy. Human capabilities however, particularly those at group level rather than individual skills, are not only extremely difficult to build but are also difficult to copy. Their creation tends to be interwoven with organizational culture, management style and many other contextual factors which are impossible to replicate. Thus, a process to build 'change competence' in one company may not work in another. Human capabilities, therefore, are one of the best sources of new differentiating strategic capabilities - by virtue of their complexity, path dependence, causal ambiguity and interconnectedness. As an example, this author (Scott-Jackson [16]) has argued that the specific management style favoured by Gulf Arabs may be a DiSC, given that it arises from long history, culture and social values which are inimitable by non-Gulf Arabs.

One objective of this paper is to suggest how DiSCs could be deliberately identified and developed by a firm to provide sustainable competitive advantage. Given that tradable assets are, by definition, mobile, then non-tradable assets are more likely to be suitable candidate sources of sustained competitive advantage. People, however, being mobile and for hire, would not seem to be ideal candidate resources. However, the intangible characteristics of groups of people, such as knowledge, social capital and 'culture', are ideal candidates as they are highly valuable, difficult to understand, causally ambiguous and likely to have arisen over a long period in a particular situation. The next section of the paper presents a framework and case study for the creation of differentiating capability.

IDENTIFYING AND BUILDING A STRATEGIC CAPABILITY: CASE STUDY IN A MAJOR GLOBAL BANK

The process for identifying and building a strategic capability first requires a clear understanding of the strategic intent of the organization. In this case, a workshop was held with the senior executive board of the bank to identify the key elements of their strategic intent (the general long term goals of the organization)

As with many large organizations, there was a formal, detailed strategy document which not only specified the strategic goals but also the plan by which they were to be achieved. The strategic intent, however, was actually simply expressed in the annual report and refined by the Board workshop. During a detailed and guided discovery process it was identified that there were four main elements, of which one was to become a high value bank, gaining and retaining customers (and increasing market share) through exceptional customer service rather than competing on price. The Board then took part in a formal brainstorming and prioritization process to identify possible contributory capabilities which might support that strategic intent. Twelve key

capabilities were identified, including systems efficiency, complaint handling and Branch attractiveness (décor). These were then ranked according to importance in achieving the strategy but also according to the criteria for DiSCs: rare, inimitable, valuable etc. At this stage, the participants were instructed not to consider whether the capability could be realistically built. It was soon agreed that ‘friendliness’ of front line staff would be a true differentiating capability, especially as it was seen as rare in the industry (as an organizational capability) and inimitable due to its high causal ambiguity and interconnectedness. The Board members were then led through a process of defining the construct of ‘friendliness’ in their specific context. The output of this 4 hour session was a set of clearly defined strategic intent statements, together with a ranked list of necessary and advantageous capabilities to focus on and a clear requirement to somehow build ‘friendliness’ of frontline staff as a highly valuable DiSC

Having defined the construct ‘friendliness’, the next stage was to work with the HR department to design a plan to build the DiSC over time. The obvious ways to inculcate this capability were to ensure that ‘friendly’ people were recruited, that ‘friendliness’ was developed through training and that ‘friendliness’ to customers was recognized and rewarded. These processes are the standard elements of Talent Management (fig) and this author has repeatedly suggested (e.g. Scott-Jackson *et al* [17]) that the whole purpose of Talent Management (and a major purpose of HR Departments) is to create DiSCs, as well as the normal non-contingent capabilities. Interestingly, none of the existing processes of recruitment, induction, development, reward and deployment contained any mention of this key strategic capability - any ‘friendliness’ that currently existed was entirely accidental! The only mention of a related concept was in various values statements and annual reports where inspirational statements suggested, for example that customer satisfaction was a major objective. Aspirational and ‘values’ statements can have an impact on behaviour but not if they conflict with management behaviour and HR processes, such as reward.

One of the issues in trying to build the capability of ‘friendliness’ was that there was relatively little understanding of the concept and therefore it was difficult to design recruitment and assessment process to identify those people who already had the capability. The lack of understanding is of course an advantage in terms of inimitability. The team therefore launched a research project to formally define the construct of ‘friendliness’ from a psychological perspective, develop new assessment techniques, including psychometric instruments, and to identify any other organizations who did recruit and assess closely related competencies. Several organizations did carry out competency testing for related competencies such as ‘customer service focus’ and ‘engaging personality’ and ‘desire to help customer’. From this research, a new web-based recruitment tool was designed which allowed potential candidates to assess their own capability in this regard and to self-select before further assessment via structured interviews (developed using the constructs of ‘friendliness’ as defined). These underlying constructs were also able to be used in designing new customer service training courses and, interestingly, could also be used to provide an approximate measure of organizational ‘friendliness’ to review progress in building the capability year on year.

This example demonstrates a straightforward framework and method for identifying and developing differentiating strategic capabilities – even one as initially ill-defined as ‘friendliness’.

The process requires:

1. Desk Research to review and analyze existing strategy documents and market information.
2. One to one engagement with top team to identify barriers and enablers to the approach (on-board them before the workshop).
3. A senior management workshop to:
 - Clarify strategic intents.
 - Brainstorm necessary capabilities.
 - Rank the capabilities according to criteria from the RBV (rare, valuable, inimitable etc).
 - Define the capability construct in the context of the specific strategic intent.
4. A focused intervention to:
 - Research the capability and how it might be created and measured.
 - Investigate and learn from other organizations’ related efforts.
 - Design and implement HR processes of recruitment, training, reward and measurement to build the capability.
5. A measurement and review process to
 - Ensure the capability is being developed.
 - Make changes in the programme to reflect changes in strategic intent or market competitive conditions.

It could be argued that the intervention described above to create the capability of ‘friendliness’ could be copied by others, is imitable and therefore cannot be a DiSC Exceptional customer service is, of course, a key requirement for many retail operations, including many competitor banks. It was somewhat surprising, therefore, that so few had implemented similar deliberate programmes to recruit, train and reward for this capability of ‘friendliness’. It seems that, as in other areas of economic and strategic theory, the real market is extremely imperfect and that best practice, knowledge and process models do not flow between organizations at all easily. A sufficiently complex capability, integrated with existing culture, values and management style seems to provide adequate protection against imitation given that it is causally ambiguous, path dependent and interconnected with other aspects of the organization. Culture, in particular, is highly path dependent and causally ambiguous and therefore provides a good basis for DiSCs. It can be argued, for example, that organizational culture is often primarily a function of societal culture (Ali [1]) which is even more difficult to replicate. It is therefore interesting to consider whether any capability could be identified which is valuable but also derives from societal culture. Such a capability would be difficult to imitate, except by those organizations within the

same society. In a global market, unique combinations of such capabilities deriving from, and taking the best from, various societal cultures would be extremely hard to copy. An obvious and valuable capability is 'effective management'. This approach to DiSC is explored further in Scott-Jackson [16].

CONCLUSION

This paper suggests that the clearest link between business strategy and human resources is based on the creation of Strategic Differentiating Capabilities (DiSCs). These DiSCs are the most important factor in sustainable competitive advantage and the most important contributor to strategic success. The criteria for effective DiSCs suggest that human resources are most likely to be the primary sources of strategic advantage. The paper describes, through a case study, a method to define and develop DiSCs. The presentation will explore the practical steps required to create long-lasting DiSCs and to demonstrate the contribution of HR to strategic success.

The author and his team are carrying out DiSC analyses in several major organizations and would be pleased to hear from any organizations who would be interested in exploring this crucial component of business strategy.

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