

What is the Relationship between SHRM & Competitive Advantage

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1. INTRODUCTION

With the globalization of the world, more and more companies are seeking foreign markets[1]. The competition among companies are becoming more severe, thus, as Evans, Campbell, and Stonehouse [2]point, how do organisations achieve superior performance is very crucial to a company's success. Therefore, how to gain competitive advantage known as superior performance is examined by many organisations. It is found that competitive advantage can be gained from many aspects, such as marketing, finance and accounting, management structure, human resource and so on. Fombrum[3] says strategic human resource management is concerned with creating a competitive advantage for an organisation by closely aligning human resource processes, such as recruitment, selection, training, appraisal, and reward systems.

This article is to discuss the relationship between SHRM and competitive advantage. For the first part, it is focus on the definition of competitive advantage, the importance of it relating to the overall success of an organisation. Here, Porter's [4] theory on gaining competitive advantage is being used as a guild. Moreover, the sustainable competitive advantage is discussed to the sustainable development of an organization. The second part talks about SHRM, including its definition and development as well as how SHRM is integrated with Porter's theory in gaining competitive advantage. The third part is focusing on the relationship between the two and how to achieve competitive advantage through SHRM. Also, the future of SHRM is discussed.

2. WHAT IS COMPETITIVE ADVANTAGE?

Competitive advantage, as Evans et al. [2] point, can weaker competitor and outperform its rivals. "Competitive advantage is at the heart of a firm's performance in competitive markets"[4]. He also points gaining competitive advantage through three ways: cost leadership, which means to reduce cost in order to offer lower price, thus increasing sales; differentiation, which means offer something different from the competitors and this can increase the profit margin because no one else can provide or have this feature; focus, which means the organisation should having focus in order to gain more market share. In Porter's theory, he says an

organisation can be either focus on cost leadership or differentiation.

Competitive advantage can be either short-term or long-term; definitely, every firm is looking for long-term competitive advantage, which is also known as sustained competitive advantage. This can be gained through causal ambiguity, complexity, rarity and culture [2].

3. WHAT IS SHRM?

Human resource management includes anything and everything relating to managing the employment relations in a firm [5]. Strategic human resource management, growing steadily since the 1980s, is discussed by many researchers because its importance in regard to the success of organisations today. People in an organisation is considered to be an asset and many firms especially large firms like Carlson, Disney, Accor and Hotel Groups are even marketing on employees, that means they are doing there best to satisfy their employees. SHRM is a more popular term now regarding to improve the companies performances. Michie and Sheehan[6] define SHRM as HR policies consistent with the firm's strategy, and there are three theoretical theories dominate the SHRM literature: universalistic also known as best practice, contingency and configurational. Bennett, Ketchen, Jr., and Schultz [7] find that a number of strategic, environmental and organisational characteristics are associated with the degree to which organisations have integrated human resource management into strategic decision making. Wright and McMahan [3] define strategic human resource as "the pattern of planned human resource deployments and activities intended to enable an organisation to achieve its goals".

Since the importance of SHRM, the researchers take an interested on this topic, however, generally for the understanding of SHRM includes: first, SHRM can lead to competitive advantage for an organisation[6]; second, it is concerned with integration with the strategic decisions [6] [8]; third employees are seen as the "asset" or "capital" of an organisation and are taken more importance today[9]. The developing of strategic international human resource management (SIHRM) is another trend [2].

4. THE RELATIONSHIP BETWEEN SHRM AND COMPETITIVE ADVANTAGE.

Porter [4] mentions three ways to gain competitive advantage, as mentioned before in the competitive advantage part. In this part how SHRM relates to Porter's theory is discussed, thus find out the relationship between SHRM and competitive advantage.

4.1 SHRM and cost leadership

Boxall and Purcell[5] mention that SHRM implies a concern with the way in which HRM is critical to organisational effectiveness. Most firms are economic entities and the shareholders expect adequate financial returns, however, they are depending on different members of society, including their employees and agencies of the states. More and more firms are now realising this and considered their employees as their productive resource. Two methods are discussed here in order to lower the price: putting staff in a short-term contracts or part-time working and invest more on HR practices and which can be expected to be recouped through improved performance [3]. The later is more about SHRM, and they recommend the later one which "requires higher level of commitment and motivation among staff, it is also necessary for this to be matched, first by the skills to work more productively and, also, by the opportunities to put those skills and motivation to good effect". In short, motivation, skills and opportunities must be coherent and combined. Richard and Johnson [10] examine the role that SHRM effectiveness plays in contributing to organisational effectiveness, and the result shows that the higher levels of SHRM effectiveness experience performance gains. They use three indicators to support their finding: effective HR contributes to turnover reductions and productivity and return-on-equity increase. Turnover reduction means the firm can save a lot of money on recruitment and training, which is costly for an organisation. For example, the cost per employee was reduced from \$1,212 in 2000 to \$1,096 in 2003 in Carlson companies by effective HR. Richard and Johnson [10] in their research on SHRM and organisational performance, find that HR effectiveness results explain an increase of 9 per cent of the variance over and above the control variables, which suggests that an effective HR may contribute to turnover reductions.

Therefore, SHRM can lower the cost of an organisation by either reducing the cost on new employees or increasing the productivity. The lower of cost on people will lead to the lower the cost of the product; this enables the company offering a lower price than its competitors and thus increasing profit and lead to competitive advantage.

4.2 SHRM and differentiation

There are many ways that an organisation can be different from another in SHRM, like, different in HR polices, structures, employment, training, culture and

so on. In this article the focus is on culture. Schein[11] defines organisational culture as "the pattern of assumptions that the group has invented and evolved in learning to cope with both its problems of survival in the external environment and its problems with how to manage itself as a group". Simonsen[12] concludes that organisation culture includes such aspects as its philosophies, values, beliefs, work systems and practices, expectations and limitations on employee's behaviors. It is influenced by a lot of factors but mainly national culture and company's history. He also mentions that culture change can be managed by "the choice of appropriate HRM policies and practices, in the realms of employee influence, human resource flow, reward systems and work systems". A positive and attractive culture is more likely to attract more people and thus can have a huge source of employees. The rating of the most favorable working place also shows the importance of culture. Among the top ones saved a lot on looking for people, always people will look for them. Like Carlson companies, they have a good reputation and rated among the 100 companies that employees like to work for, and people wanting for them just apply on-line and their details will be kept in the database. Therefore, they can save money on advertisement. A positive culture can also encourage employees to increase their productivity. Especially in service industry, the satisfaction of employees has much to do with the customers' satisfaction.

Culture is not easily to be learnt according to Evans et al. [2]. Each organisation has different culture just like no country can have the same culture. Gaining competitive advantage through culture differentiation can also lead to sustained competitive advantage because it is difficult to duplicate.

5. CONCLUSIONS

SHRM is gaining more importance for researchers since its importance in gaining superior performance among competitors. This article uses Porter's theory on gaining competitive advantage and put it into SHRM content. In order to understand the relationship between SHRM and competitive advantage, the definitions are talked in the first two parts. The third part is divided into two parts: first how SHRM is associated with low-cost leadership, Richard and Johnson's [10] findings are used here to illustrate how low-cost can be achieved. Including SHRM can reduce the turnover ratio and increase productivity and return-on-equity ratios; second, what SHRM is to do with being a differentiator. Organisational culture is unique and hard to duplicate, although it needs time and effort to build an effective and attractive culture, it will benefit the organisation in the long-run, because it can lead to the sustained competitive advantage.

To conclude, SHRM can help an organisation to gain competitive advantage through lower the cost or

cultivating a unique culture. According to Porter, an organisation can either be cost leadership or differentiator. However, these two can sometimes be integrated. Culture can also help the organisation to lower cost through good reputation. But it needs a lot of effort, money and time to change organisation's culture.

The decline of investment and trade policies and technology enhancement faster the pace of globalization. More international businesses and multinational enterprises (MNE) are competing in a world market. Competition is not avoidable, thus gaining competitive advantage is becoming more important. Lower production price by seeking cheap labor and resource in developing countries, which many MNE today are doing will continue, however, this will not be competitive since the rising issues on human right, and this is easily to be duplicated by competitors. Technology is another way to lower cost, which many organisations is seeking to, however it is much cost, but it is hard to copy. By integrating technology with SHRM will be the future development in achieving sustained competitive advantage. Carlson has developed the human resource shared service, which is an example of integrating these two and it leads a great success in lowering human costs. The difficulty for MNE to deal with is the diversification of work force, thus hard to create organisational culture, since it is relate to the nation's culture. The integration of different culture will be a difficulty. However, once the culture has successfully built, it can be harder to duplicate, so it can lead to the sustained competitive advantage.

Therefore, we can implicate that there will be more and more focus on the relationship between competitive advantage and SHRM. Technology using in SHRM will lead to achievement at sustained competitive advantage. Culture will be another focus on developing competitive advantage. Organisations will look for longer-time competitive advantage, even though it needs more effort and money. The advantage of SHRM can be seen in the long run and gain favor of most organisations.

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