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FIT OR FRUSTRATION?
MELDING HUMAN RESOURCES PRACTICES
AND COMPETITIVE STRATEGY

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Executive Summary

The recent attacks on U.S. firms for failing to keep costs down, not maintaining quality and ignoring innovation are misdirected given what many firms like Celanese, Corning Class, A&P, 3M, Frost, and Brunswick are doing. These firms and others are pursuing competitive strategies aimed at cost reduction, quality improvement and innovation. The aim in implementing these strategies is to gain competitive advantage, to beat their competition--domestically and internationally.

To be successful in implementing any of these competitive strategies, a firm must pay attention to the fit between its strategy and its human resource management practices. In this article, we describe a framework that firms can use to evaluate whether various human resource management practices are appropriate given their competitive strategy.

When choosing among the many possible ways to manage human resources, the first question to consider is: "What are the general behaviors we need in order to successfully implement our chosen strategy?" The answer to this question will be quite different for firms pursuing different strategies. For example, compared to a cost reduction strategy, the innovation strategy requires having employees who are more willing to be creative and take risks. The second question to consider is: "Which human resource management practices will be most effective in stimulating and maintaining the behaviors needed to implement our strategy?" For example, if creativity and risk taking are desirable, then performance appraisal and compensation systems must be designed to permit the inevitable failures that occur when pursuing new ideas.

This paper describes the different employee behaviors needed for implementing the cost reduction, quality improvement, and innovation strategies, and explains how alternative human resource management practices can be used to stimulate and maintain the appropriate behaviors.

Fit or Frustration?
Melding Human Resource Practices with Competitive Strategies

> I myself made this mistake [thinking that you can truly innovate within the existing operating unit] 30 years ago when I was a consultant on the first major organizational change in American industry, the General Electric reorganization of the early 1950s. I advised top management, and they accepted it, that the general managers would be responsible for current operations as well as for making tomorrow. At the same time, we worked out one of the first systematic compensation plans, and the whole idea of paying people on the basis of their performance in the preceding year came out of that.
>
> The result of it was that for ten years General Electric totally lost its capacity to innovate, simply because tomorrow produces costs for ten years and no return. So, the general manager--not only out of concern for himself, but also out of concern for his group--postponed spending any money for innovation. It was only when the company dropped this compensation plan and at the same time organized the search for the truly new, not just for improvement outside the existing business, that G.E. recovered its innovative capacity, and brilliantly. Many companies go after the new and slight today and soon find they have neither.[1]

Here is a fine example of a great firm stumbling in its pursuit of an innovative competitive strategy. Failure and frustration resulted due to the lack of fit between compensation practices and the firm's competitive strategy. In contrast, after four straight years of losses and a shrinkage in the number of stores from 3,468 in 1974 to 1,016 in 1982, the Great Atlantic & Pacific

Tea Co. and the United Food and Commercial Workers (UFCW) saw the hand writing on the wall: either reduce costs and be competitive or go out of business. With a desire to remain competitive, A&P and the UFCW agreed upon a compensation plan that fit their cost reduction strategy:

> In an experimental arrangement negotiated with the United Food & Commercial Workers (UFCW) at 60 stores in the Philadelphia area, workers took a 25% pay cut in exchange for an unusual promise: If a store's employees could keep labor costs at 10% of sales--by working more efficiently or by boosting store traffic--they'd get a cash bonus equal to 1% of the store's sales. They'd get a 0.5% bonus at 11% of sales or 1.5% at 9.5% of sales. It was a gamble in the low-margin supermarket business, but it worked.[2]

The result? An 81% increase in operating profits since 1984 and a doubling of A&P's stock price.

Increasingly, firms are recognizing the need to manage people differently than in the past in order to become (or remain) competitive. Failure to take a strategic and systematic approach to managing human resources is likely to result in failure overall in the long run. Because the way firms manage their people can best be described by their human resource practices, we will discuss how human resource practices, such as compensation, staffing, appraisal, and training and development, can be systematically managed to fit strategies selected by firms to remain or become competitive.

As shown in Figure 1, competitive strategies determine the needed general employee behaviors. Human resource practices stimulate and reinforce needed behaviors. Thus to facilitate the successful execution of a competitive strategy, particular choices amongst the human resource practices should be made. The right choices are those that provide the fit between the competitive strategy and the human resource practices based on their common association with the needed employee behaviors.[3]

Competitive Strategies

Critical to a firm's growth and prosperity is gaining and retaining competitive advantage. One way to gain a competitive advantage is via strategic initiative. Ian MacMillan, Director of the Entrepreneurial Studies Center at Wharton, defines "strategic initiative" as the ability of a company or a strategic business unit to capture control of strategic behavior in the industries in which it competes.[4] To the extent one firm gains the initiative, competitors are obliged to respond and thereby play a reactive rather than proactive role. MacMillan argues that firms that gain a strategic advantage control their own destinies. To the extent a firm gains an advantage difficult for competitors to remove, it stays in control longer and so should be more effective.

The concept of competitive advantage is described by Harvard's Michael Porter as the essence of competitive strategy. Firms make strategic choices in order to gain competitive advantage, which can result in their being more effective. Three major competitive strategies firms use to gain competitive advantage are cost reduction, quality improvement and innovation.

Cost Reduction Strategy. In choosing the cost reduction strategy, firms typically attempt to gain competitive advantage by being the lowest cost producer. Often the characteristics of a firm pursuing the cost-reduction strategy are tight controls, overhead minimization and pursuit of economies of scale. The primary focus of these measures is to increase productivity--that is, output cost per person. This can mean a reduction in number of employees and/or a reduction in wage levels. The textile industry since 1980 has shed 17% of its labor force, the primary metals almost 30%, and steel 40%. The result: over the past four years productivity growth in manufacturing has averaged 4.1% per year versus 1.2% for the rest of the economy.[5] Similar measures have been taken at Chrysler and Ford and now are being proposed at GM and AT&T. Reflecting on these trends, Federal Reserve Governor Wayne D. Angell says: "We are invigorating the manufacturing sector. The period of adjustment has made us more competitive."[6]

In addition to reducing the number of employees, firms are also reducing wage levels. For example, in the household appliance industry where GE, Whirlpool, Electrolux and Maytag account for 80% of all production, labor costs have been cut by shifting plants from states where labor is expensive to less costly sites. The result of this is a new breed of cost-effective firms putting U.S. manufacturing back on the road to profitability.[7]

Cost reduction can also be pursued through increased use of part-time employees, subcontractors, work simplification and measurement procedures, automation, work rule change, and job assignment flexibility. Thus there are several methods for pursuing a cost reduction approach. Although these methods are vastly different, they share three critical aspects: (1) the focus is on reducing output cost per employee; (2) the degree of employee commitment to the firm does not impact their effectiveness; however, 3) their effectiveness does depend upon having the right human resources practices, as will be discussed later.

<u>Quality Improvement Strategy</u>. At Xerox, CEO David Kearns defines quality as "being right the first time every time." Enhancing product and/or service quality is the primary focus of the quality improvement strategy. The implications for managing people are significant. The "total quality approach" at Corning Class Works is about people according to James Houghton, the chairman. At Corning, good ideas for product improvement often come from employees. In

order to carry through on their ideas, Corning workers form short-lived "corrective action teams" to solve specific problems.

> Employees [also] give their supervisors written "method improvement requests," which differ from ideas tossed into the traditional suggestion box in that they get a prompt formal review so the employees aren't left wondering about their fate. In the company's Erwin Ceramics plant, a maintenance employee suggested substituting one flexible tin mold for an array of fixed molds that shape the wet ceramic product baked into catalytic converters for auto exhausts. By making the change the plant is saving $99,000 annually.[8]

At Corning, then, quality improvement involves getting employees committed to quality and continual improvement. While James Houghton's policy statements emphasizing the "Total Quality Approach" are invaluable, they must be followed up with specific human resource practices. As in the example above, feedback systems need to be in place; team work must be permitted and facilitated; decision making and responsibility must be part of everyone's job description; and job classifications may need to be flexible or even eliminated. Quality improvement often means changing the processes of production in ways that require workers to be more involved and to be more flexible. As the nature of the jobs change, so must job classification systems. At Brunswick's Mecury Marine division the number of job classifications was reduced from 126 to 12. This has permitted greater flexibility in the use of production processes and the employees. Machine operators also gained greater opportunities to learn more skills. In the Marine division today machine operators inspect their work and do preventive maintenance in addition to running the machines.[9] It is because of human resource practices such as these that people have become committed to the firm and hence are willing to give more. Not only is the level of quality likely to improve under these conditions, but sheer volume of output is likely to increase as well. Pursuing a quality improvement competitive strategy, L. L. Bean's sales have increased tenfold while the number of permanent employees has grown only fivefold.[10]

In addition to advancing quality improvement through "corrective teams" and other forms of employee involvement, automation can be used. Frost Inc., a small manufacturer of overhead rails, uses flexible manufacturing and computer aided design to produce products of the highest quality, per customer specifications. Successful execution of this method of quality improvement depends upon employee commitment to the firm. It also depends upon flexibility in work assignments and extensive retraining.[11]

Because these approaches to quality improvement typically involve greater employee commitment and utilization, fewer numbers of employees are needed to produce the same level of output. As quality rises, so does demand, yet this demand can be met with proportionately fewer employees than previously. Thanks to automation and a cooperative work force, Toyota is producing about 3.5 million vehicles a year with 25,000 production workers--about the same number as in 1966 when it was producing one million vehicles.[12] In addition to workers being more productive, fewer are needed to redo the rejects caused by poor quality.

While both the cost reduction strategy and the quality improvement strategy can prove to be effective ways to gain competitive advantage, they have significantly different implications for managing people. Overall the cost reduction strategy appears to depend on modest levels of employee commitment (emotional and cognitive) although they need to work harder at the same thing. In contrast, the quality improvement approach appears to depend on higher levels of employee commitment--emotional, cognitive, and sometimes physical as well. The emphasis, however, is on working smarter rather than just harder.

A logical question to ask here is "which approach to take?" Of course, the preferences of management will partly determine the answer. Another critical factor should be the answer to the question: "What is the major problem?" At the Mercury Marine division and Corning Glass Works the problem seemed to be quality. "Customers, particularly industrial trial buyers, would have been no more inclined to buy their products even if the manufacturer could have passed along savings of say, 10% or even 20%."[13]

But what if the problem is neither cost nor quality? What if the problem is products or services that are simply no longer in demand or that are easily duplicated by the competition, thus shrinking margins to all but zero? What competitive strategy is appropriate under these circumstances? As described in the opening quotation by Peter Drucker, an innovation competitive strategy may be the one to use.

<u>Innovation Strategy</u>. While the cost reduction strategy is used to lower the cost of the product and the quality improvement strategy is used to enhance quality, the innovation strategy is used to develop products or services different from those of competitors. The primary focus here is on offering something new and different. Because the imperative in an innovation strategy is to be the most unique producer, conditions for creativity and innovation (for entrepreneurship essentially) must be created. These conditions can be created either formally through official corporate policy or more informally. According to Rosabeth Moss Kanter:

> Innovation [and new venture development] may originate as a deliberate and official decision of the highest levels of management or they may be the more-or-less "spontaneous" creation of mid-level

> people who take the initiative to solve a problem in new ways or to develop a proposal for change. Of course, highly successful companies allow both, and even official top management decisions to undertake a development effort benefit from the spontaneous creativity of those below.[14]

Representing a more deliberate effort to pursue an innovation thrust was Jim McGovern's decision to break the Campbell Soup Company into some 50 independent business units with the charter that each develop its own products. The results?

> In 1984 alone, the company introduced 92 new products, bringing its five-year total to 334--far more than such larger competitors as Beatrice, Nestle, and General Foods. And although not all new products have been clear successes (some, such as Pepperidge Farm's Star Wars cookies, were notable failures), other have reaped spectacular rewards. Two new products introduced in 1983, Prego Spaghetti Sauce and Le Menu Frozen Dinners, already contribute a combined $450 million a year to Campbell's coffers.[15]

Representing a less systematic (though not necessarily less successful) effort to create innovation is 3M's informal doctrine of employees bootlegging 15% of their time to work on their own projects. An even less systematic approach is encouraging employees in the firm to look at their work in new ways and offer suggestions for new and improved methods or products.

What are the implications of pursuing a competitive strategy of innovation for managing people? The implications may include selecting highly skilled individuals, giving employees more discretion, using minimal controls, greater investment in human resources, providing more resources for experimentation, allowing and even rewarding occasional failure, and appraising performance for its long-run implications. As a consequence of these condi-ions, pursuing an innovation strategy may result in feelings of enhanced personal control and morale, yet greater commitment to self and profession rather than to the employing organization. Nonetheless benefits may accrue to the firm as well as the employee as evidenced by the success of innovative firms such as Hewlett-Packard, the Raytheon Corporation, 3M, Johnson and Johnson, and PepsiCo.

Thus, the innovation strategy has significant implications for human resource management. In contrast to emphasis on managing people so they work harder (cost reduction strategy) or smarter (quality strategy) on the same products or services, the innovation strategy requires people to work differently. Although an innovation strategy may result in people working harder and smarter, the <u>necessary</u> ingredient is working differently.[16]

Given this overview of the major competitive strategies, we move next to a discussion about how to meld competitive strategy and human resource management practices.

Melding Human Resource Practices with Competitive Strategy

In the opening quotation Peter Drucker reflects on the importance of getting a fit between General Electric's competitive strategy of innovation and its human resource practice of compensation. Drucker also recognizes the importance of fitting other human resource practices to the competitive strategy.[17] Commenting on how to foster innovation and entrepreneurship, Drucker highlights the importance of staffing:

> It's very common when it comes to the question of how do you staff, that people will say, "We can't spare Joe for the new. What he's doing is so important, we can't take him off it." The result is that companies staff with people they can spare. And whenever I

hear, "All we can spare is Joe," I say, "You are staffing by proven incompetence." Unfortunately, that is the most common staffing principle.[18]

In addition to the importance of melding compensation and staffing practices, it is also important to meld job design, performance appraisal, training and development and labor-management relationships with competitive strategy. Implicit in this notion of melding human resource practices with competitive strategy is the assumption that there are many practices from which to choose. Also implicit is that some practices are better or more appropriate than others. Both of these assumptions are central in describing the melding of human resource practices with competitive strategy.

HR Practice Choices. Firms that wish to systematically manage their human resources have many choices.[19] Some of these choices are shown in Exhibit 1. The first challenge, then, is to choose from among all the human resource practices those that are most appropriate for one's particular competitive strategy.

What determines which practice choices are appropriate? The appropriate practices are those which encourage employees to engage in the general behaviors needed to implement the firm's competitive strategy. The general behaviors needed to implement a competitive strategy are a bit broader than the specific skills and abilities needed by employees to do specific jobs. Strategy-determined "needed employee behaviors" could thus vary across firms in the same industry pursuing different competitive strategies.

Competitive Strategy Profiles. Exhibit 2 shows eight dimensions along which employees' general behaviors can vary. The eight dimensions shown are the ones for which there are likely to be major differences across the competitive strategies. Also shown in Exhibit 2 are the profiles of employee characteristics needed for the successful implementation of three different competitive strategies. The profiles are meant to illustrate the relative differences in employee behaviors needed to pursue the alternative strategies, ignoring for the moment many other factors that will also impact the needed behaviors of employees (e.g., the number and types of products or services, management-nonmanagement differences, and work process techniques such as automation and work measurement systems).[20] Naturally, firms need to also account for these factors when choosing from the human resource practice menus. But we are arguing here that strategy should be a primary, overriding consideration.

The profile of general employee behaviors necessary for effectiveness in firms seeking to gain competitive advantage by pursuing the competitive strategy of cost reduction is as follows: (a) relatively repetitive and predictable behaviors; (b) a rather short-term focus; (c) primarily autonomous or individual activity; (d) modest concern for quality; (e) high concern for quantity of output (goods or services); (f) primary concern for results, regardless of how they are achieved; (g) low risk taking activity; and (h) a relatively high degree of comfort with stability.

In comparison, the profile of general employee behaviors necessary for effectiveness in firms pursuing a competitive strategy of quality improvement is: (a) relatively repetitive and predictable behaviors; (b) a more long-term or intermediate focus; (c) a modest amount of cooperative, interdependent behavior; (d) high concern for quality; (e) modest concern for quantity of output; (f) high concern for process (how the goods or services are made or delivered); (g) low risk-taking activity; (h) somewhat tolerant of ambiguity and unpredictability.

For firms pursuing a competitive strategy of innovation, the profile of general employee behaviors includes: (a) a high degree of creative behavior; (b) a longer-term focus; (c) a relatively high level of cooperative, interdependent behavior; (d) a moderate degree of concern for quality; (e) moderate concern for quantity; (f) an equal degree of concern for process and results; (g) a greater degree of risk taking; and (h) high tolerance of ambiguity and unpredictability.[21]

Fitting Practices to Strategies

The profiles of needed behaviors described above are the keys to selecting the human resource practices that will be most effective in supporting the firm's competitive strategy. Consider the innovation strategy, which requires having employees who are willing to take risks and try almost anything in the pursuit of creative new ideas. Psychological studies of creativity tell us there are several conditions that nourish creativity: a "safe" environment in which the inevitable failures that accompany risk-taking are not punished; frequent exposure to openness toward people with very different perspectives and different tools for approaching problems; lack of time pressure to produce results; and recognition of the fact that true creativity implies not knowing where (or when) you're going to end up until you get there. These conditions are typically found in such high innovation companies as 3M, Raytheon and Hewlett Packard. Thus a firm pursuing an innovation strategy should ask itself whether their human resource practices encourage such an atmosphere.

In our study, we compared firms pursuing an innovation strategy to firms with non-innovation strategies and found clear differences in a variety of practices. For example, firms pursuing the innovation strategy were more likely to have jobs that require close interaction and coordination among groups of individuals and performance appraisals were more likely to reflect group-based achievements. Jobs allowed employees to develop skills that could be used in other positions in the firm (although interestingly, formal training programs were less evident in these firms). Compensation systems in the innovation firms emphasized internal equity rather than external or market-based equity. Pay rates tended to be low but employees were more likely to be stockholders and were given more freedom to choose the mix of components (salary, bonus, stock options) that make up their pay package.

Using practices such as these is appropriate when a premium is placed on creativity and innovation, but they are not appropriate when cost reduction is the goal because the behaviors needed to implement a cost reduction strategy are quite different from those needed to implement an innovation strategy. Whereas innovation demands creativity and risk-taking, cost reduction demands predictability and little risk-taking. The long-term orientation required for innovation is replaced by a short-term focus on quantifiable results. And in contrast to the cooperation and teamwork needed to facilitate innovation, a cost reduction strategy may be better served by autonomous individuals who must compete with each other for limited resources and rewards.

Because the behaviors needed by firms pursuing a cost reduction strategy are so dissimilar to those needed for innovation, the most appropriate human resource practices are quite dissimilar for the two types of strategies.

In attempting to gain competitive advantage by pursuing a competitive strategy of cost reduction, key human resource practice choices include (a) relatively fixed (stable) and explicit job descriptions that allow little room for ambiguity, (b) narrowly designed jobs and narrowly defined career paths that encourage specialization, expertise, and efficiency, (c) short-term, results-oriented performance appraisals, and (d) close monitoring of market pay levels for use in making compensation decisions. These practices, practiced in firms such as UPS, maximize efficiency by providing means for management to closely monitor and control the activities of employees.

In many cases, the cost reduction and innovation strategies require behaviors that are at opposite ends of the dimensions shown in Exhibit 2. In comparison, the quality strategy requires some behaviors that are the same as those needed for innovation, some that are the same as those needed for cost reduction, and some that fall midway on the behavior dimensions.

How do firms who are effectively pursuing a quality strategy manage their human resources? Our data indicate that training and performance appraisal practices are the keys. Unlike most firms, those like L.L. Bean and Corning Glass Works, who are successfully pursuing a quality strategy collect performance appraisal data from the customer as well as from supervisors. Furthermore, these firms use the results of their performance appraisals to determine where to focus their training efforts. Not surprisingly, then, these firms spend significantly more time training employees to perform their jobs competently. Rather than rely on incentive pay, which often emphasizes quantity rather than quality, cost-of-living increases are the norm.

Our data suggest there are consistent patterns between strategies and human resource practices, but this does not mean that a simple formula can be followed to guarantee that the best fit has been considered. Firms desiring to establish the right fit between human resource practices and competitive strategy need to carefully examine their own unique situations. In any given situation it is conceivable that a firm may not need to stimulate and reinforce precisely those needed behaviors shown in Exhibit 2 to drive a particular competitive strategy. It is also conceivable that a firm may need to stimulate and reinforce the needed behaviors shown but not to the same extent as another firm pursuing the same competitive strategy. Pursuit of cost reduction by work simplification and measurement procedures is likely to influence human resource practices differently than use of employee layoffs. Quality improvement through automation is likely to influence human resource practices differently than the use of teams and quality circles. In other words, the degree of success of these "fits" is all in the execution.

It's All in the Execution

There are several points of analysis to keep in mind in attempting to fit human resource practices to a firm's competitive strategy. Two essential points to analyze critically are: (1) Is the firm attempting to gain competitive advantage? and (2) Is the firm's human resource director attuned to the strategic consideration of the firm as a whole? A firm may decide (intentionally or unintentionally) not to seek a position of competitive advantage--the costs and the risks may be too great or strategically it may be more effective to follow the leaders. Many human resource practices are managed through the human resource department, so if its director is not a strategic player the likelihood of systematically aligning human resource practices with competitive strategy will be diminished.

If the firm's human resource director _is_ a strategic player and the firm wants to attain a competitive advantage, the firm is ready to move to other points of analysis. A critical point of analysis is the firm's approach to gaining competitive advantage. At this point, many questions arise: Which competitive strategy is best? Should (can) only one strategy be used? How can competitive strategies and the corresponding human resource practices be implemented and changed?

Which Competitive Strategy is Best? Of the three competitive strategies described here, deciding which is best depends upon several factors. Certainly customer wants and the nature of the competition are key factors. If customers are demanding quality, a cost reduction strategy may not be as fruitful as a quality improvement strategy. If, however, the product or service is relatively undifferentiated, a cost reduction strategy may be the way to gain competitive advantage. But even here there is a choice. In the relatively undifferentiated overnight parcel delivery industry United Parcel Service is pursuing the cost reduction strategy through work process refinements such as work clarification, standardization, measurement and feedback. Roadway, in contrast, pursues the cost reduction strategy by combining employee independence and ownership (drivers own their own trucks, of various colors; UPS drivers do not own their brown trucks) with as much automation as possible.[23] In comparison to pursuing cost reduction by wage concessions or workforce reductions, the advantage of these latter approaches to cost reduction is the amount of time required to implement the strategies. Cost reduction through wage concessions or employee reductions, though painful, can be relatively straightforward to implement. As a consequence, it can be duplicated by others, essentially eliminating the competitive advantage gained by being able to offer lower prices. The adoption of two-tiered wage contracts within the airline industry is a good example: Soon after American Airlines installed a two-tier wage system for its pilots, Eastern, United, and Frontier airlines negotiated similar contracts with their employees. By contrast, a quality improvement strategy, whether by automation or quality teams, is more time consuming and difficult to implement. As the U.S. auto industry has experienced, it is taking a long time to overcome the competitive advantage gained by the Japanese auto industry through quality improvement.

Another key factor is the product life cycle stage of the firm. Product life cycle stage may act as a constraint on what a firm can or should do. For example, in the growth stage, a relatively tight labor market exists so reducing labor costs is a low priority. These firms need technical talent to transform into marketable products the ideas of the founder or the basic technological breakthrough that gave rise to the new business. Given that technical skills are so critical and in such short supply, and that internal sources of supply are almost nonexistent, the attraction and retention of talented individuals becomes essential. Wage rates in this scenario are and often tied to the firms' profitability and employees' skills. Firms are likely to attract essential talent by differentiating themselves from the competition rather than by promising high wage rates. Such differentiation is attained by using innovative, nontraditional human resource practices including employment security, high levels of employee participation in decision making, paying bonuses to employees who attract new recruits, and close involvement in human resource management. Employee participation in decision making is encouraged through quality circles, employee involvement groups and participation teams. Given cost and market conditions, then, firms in the growth stage may more easily gain competitive advantage and enhance effectiveness through competitive strategies of innovation or quality improvement. A competitive strategy of cost reduction may be neither necessary nor appropriate.

As the firm's products move into the maturity stage, attracting highly skilled individuals is no longer as high a priority. Firms in the mature stage have an extensive internal labor market and better developed training programs. Thus, while firms in this stage may pay high wages it is often to retain rather than to attract talent. Wages here are less dependent on the firm's profitability and employee skills and more dependent on job classifications and the cost of living. Jobs tend to be narrowly defined and employee participation is limited.

In contrast to the growth stage, firms in the mature stage face extensive competition unless severe market barriers to entry exist. Accordingly, product prices are driven down. In turn, this forces firms to seek more cost-efficient ways of operating. Firms that have the lowest costs are thus the ones most likely to be successful in the mature stage. Consequently, firms here should gain competitive advantage and enhance effectiveness through human resource practices that complement competitive strategies of cost reduction or quality improvement.

As firms grow large they typically take on several lines of products or services, thus finding themselves in several life cycle stages. This in turn prompts a response to the question of "Should (can) only one competitive strategy be used?"

<u>One Competitive Strategy or Several</u>? It is plausible that firms with products or services in different stages utilize different competitive strategies concurrently. This is extremely challenging because the way people are managed varies so dramatically under different competitive strategies. As stated by Reginald H. Jones, former chairman and CEO of General Electric Company:

> When we classified..(our)..businesses, and when we realized that they were going to have quite different missions [or competitive strategies], we also realized we had to have quite different people running them.[23]

It is more than likely that firms actually need to have multiple and concurrent competitive strategies. According to Mitchell Kapor of Lotus Development Corporation:

> To be a successful enterprise, we have to do two apparently contradictory things quite well: We have to stay innovative and

> creative, but at the same time we have to be tightly controlled about certain aspects of our corporate behavior. But I think that what you have to do about paradox is embrace it. So we have the kind of company where certain things are very loose and other things are very tight. The whole art of management is sorting things into the loose pile or the tight pile and then watching them carefully.[24]

Thus several strategies are likely to exist in firms with several products or services and the tensions that arise across units need to be managed. To prevent or at least reduce tensions, firms have typically separated the units from each other. From a people management viewpoint, then, decentralization can be an effective tool.

One Primary Focus or Two? In general, seeking more output per employee, improving quality and facilitating innovation depend upon different employee behaviors and thus require different human resource management practices. Because of the inherent conflicts emanating from the use of multiple human resource practices, pursuing one primary focus appears to be the most manageable path to follow. As stated by David Kearns, Xerox attains productivity increases by focusing primarily on quality improvement. Whether or not Xerox would attain greater productivity increases by also pursuing a cost reduction strategy is unknown. Firms that are reputed to be the lowest cost and highest quality producers--such as Lincoln Electric--are few and far between.[25]

Implementation and Change. We have argued that to be effective, firms must fit their HR practices to their competitive strategies. By implication then, changes in strategy should be accompanied by changes in human resource practices. As the products of firms change, as their customers' wants change and as the competition changes, the competitive strategies of firms will change; consequently, employees will face an ever-changing employment relationship. A significant implication that follows is that employees of a single firm may be exposed to different sets of human resource practices during the course of employment. Consequently, employees may be asked to exhibit different behaviors over time and they may be exposed to several different conditions of employment. Although it is problematic whether all employees can adjust to such changes, it appears that many can and have. For those who wish not to, firms may offer outplacement assistance to ease the transition from one firm to another, or perhaps from one division to another. For those unable to change, firms may offer training programs to facilitate the acquisition of necessary skills and abilities as well as necessary general behaviors.

Another implication is that all components of a system of human resource practices need to be changed and implemented simultaneously. The key human resource practices work together to stimulate and reinforce particular needed employee behaviors. To not invoke a particular practice (e.g., high participation) implies invoking another (e.g., low participation) that is less likely to stimulate and reinforce the employee behaviors needed. The likely result is that employees will experience conflict, ambiguity, and frustration.

In order to ensure that a firm does not produce frustration, someone must be charged with monitoring the fit between competitive strategy and human resource management practices. Needed here is a human resource director who plays a strategic role in the firm. Also needed is a human resource director who plays the role of change agent. Because of its attendant uncertainty, most change in firms is difficult to effectuate; having a human resource director skilled in the change process should facilitate a transition from one set of human resource practices to another.[26]

But Does This All Really Work?

It can, but only if several things are happening. One is top management standing behind the attempt to gain competitive advantage and believing that people matter in the success of a competitive strategy. The appropriate depth of belief about the importance of people in the execution of any plan or strategy is nicely captured by the following quote from former CEO of Citibank, Walter Wriston:

> I believe the only game in town is the personnel game...My theory is if you have the right person in the right place, you don't have to do anything else. If you have the wrong person in the job, there's no management system known to man that can save you.[27]

Furthermore, the top management team usually includes a human resource director who is capable and who is a strategic player in the firm.

Secondly, successful firms pay attention to broad cultural and contextual differences. Although the United Food & Commercial Workers agreed with the incentive compensation scheme at A&P, the UFCW appears unwilling to see this practice spread. Consequently, competitors of A&P such as Giant Food Inc. would face a difficult battle in attempting to seek the same scheme.[28]

Third, successful managers recognize that the strategy imperative supercedes the hierarchical imperative. Maintaining differences in selection, recruitment, compensation and appraisal practices primarily for status or collar-color reasons is referred to as the hierarchical imperative. These differences, are typically contrary to the key human resource practices needed to complement an innovation approach and to a lesser extent a quality improvement approach.[29]

Conclusion

The recent attacks on U.S. firms for failing to keep costs down, not maintaining quality and ignoring innovation are misdirected given what many firms like Celanese, Corning Class, A&P, 3M, Frost, and Brunswick are doing.[30] These firms and others are pursuing competitive strategies aimed at cost reduction, quality improvement and innovation. The aim in implementing these strategies is to gain competitive advantage, to beat the competition--domestically and internationally. While cost and market conditions tend to constrain somewhat the choice of competitive strategy, the constraint appears to be one of degree rather than one of kind. Consequently we can find firms regardless of industry pursuing these three competitive strategies.

Doubtless all firms are not seeking to gain competitive advantage. Not doing so, however, is becoming more of a luxury. For those attempting to do so, the experiences of other firms suggest that effectiveness can be increased by systematically melding human resource practices which the competitive strategy selected. Certainly the success or failure of a firm is not likely to turn entirely on its human resource management practices, but the HR practices are likely to be critical.[31]

End Notes

1. A. J. Rutigliano, "Managing the New: An Interview with Peter Drucker. Management Review, January 1986, 38-41.
2. __________, "How A&P Fattens Profits By Sharing Them," Business Week, December 22, 1986, p. 44.
3. The concepts put forth in this article represent a mosaic of data gathered from interviews, published sources and a large survey conducted by the authors. Represented in our sample of 300 firms are many types, including manufacturers of consumer products (21%), manufacturers of industrial/commercial products (34%), services providers (32%), and retail and wholesale distributors (13%). The primary markets served by these firms ranged in scope from regional (31%), to national (49%) and international (20%). The founding dates of these firms ranged from 1776 to 1985 (median = 1950; S.D. = 13.5 yr.). The number of full time employees in the business units studied ranged from 5 to 40,000 (median = 415; S.D. = 4429.6). Finally, 60% of the firms had no union representation. Among the 40% of firms with some union presence, there was great variation in both number of unions represented (1 to 56) and number of employees who were union members (2 to 20,000).

   Respondents (both human resource and line managers) completed an extensive questionnaire which included questions about the basic characteristics of the firms (industry, market, age, size, structure, unionization) and items designed to assess (a) life cycle stage, (b) competitive strategy being pursued, (c) human resource practices, and (d) effectiveness of products/services.

   While many of the concepts discussed have empirical support, we are in the process of doing further studies to refine some of our measures, particularly those associated with competitive strategies and effectiveness. For detailed examples of how firms use their human resource practices to gain competitive advantage see R. S. Schuler and I. C. MacMillan, "Gaining Competitive Advantage through Human Resource Management Practices," Human Resource Management, Autumn 1984, 241-255; and R. S. Schuler "Fostering and Facilitating Entrepreneurship in Organizations: Implications for Organization Structure and Human Resource Management Practices," Human Resource Management, Winter 1986, pp. 607-629.

4. For an extensive discussion of competitive initiative, competitive strategy and competitive advantage see I. C. MacMillan, "Seizing Competitive Initiate," Journal of Business Strategy, 1983, pp. 43-57; Porter, M. E., Competitive Strategy. New York: Free Press, 1980; and __________, Competitive Advantage. New York: Free Press, 1985.

5. __________, "Are America's Manufacturers Finally Back on the Map?" Business Week, November 17, 1986, pp. 92 and 97.

6. Ibid., p. 92

7. Ibid., p. 97. For more on Electrolux's human resource practices see B. J. Feder, "The Man Who Modernized Electrolux," The New York Times, December 31, 1986, p. 24.

8. M. McComas, "Cutting Costs Without Killing the Business," Fortune, October 13, 1986, p. 76.

9. For a detailed presentation of Marine Mecury's program to improve quality see M. McComas, "Cutting Costs...."

10. S. E. Prokesch, "Bean Meshes Man, Machine," The New York Times, December 23, 1985, pp. 19 and 21.

11. S. Galante, "Frost, Inc." Human Resource Planning, March 1987.

12. For a description of Toyota's human resource practices and how it elicits employee cooperation and acceptance of automation, see J. Holusha, "Toyota Adjusts Its Strategy," The New York Times, November 24, 1986, pp. 19 and 25.

13. M. McComas, p. 70.

14. R. M. Kanter, "Supporting Innovation and Venture Development in Established Companies," Journal of Business Venturing, Winter 1985, 47-60.

15. J. Kotkin, "The Revenge of the Fortune 500," Inc., August 1985, 39-44.

16. The following discussion is based upon our survey and observations, and findings reported on by others. For a review of what others have reported see R. S. Schuler, "Human Resource Management Practice Choices," Human Resource Planning, March 1987.

17. P. F. Drucker, Innovation and Entrepreneurship. New York: Harper & Row, 1985.

18. Rutigliano, "Managing the New: An Interview with Peter Drucker."

19. The choices in Exhibit 1 do not represent all of the practices in human resource management. They do, however, represent those that appear to be most highly influenced by competitive strategies. For more background see T. Peters and R. Waterman, In Search of Excellence. New York: Warner Books, 1982; D. Q. Mills, The New Competitors. New York: The Free Press, 1985; and M. Beer, B. Spector, P. R. Lawrence, D. Q. Mills and R. E. Warton, Managing Human Assets (New York: Macmillan, Inc., 1984); R. M. Kanter, "Change Masters and the Intricate Architecture of Corporate Culture Change," Management Review, October 1983, 18-28; and R. M. Kanter, The Change Masters. New York: Simon and Schuster, 1983. For a description of how culture can be a key determinant of compensation systems and vice versa, see E. E. Lawler III, "The Strategic Design of

Reward Systems." In R. S. Schuler and S. A. Youngblood (Eds.), Readings in Personnel and Human Resource Management. 2nd edition, St. Paul: West Publishing, 1984, 253-269; and R. S. Schuler, "Human Resource Management Practice Choices." In R. S. Schuler, S. A. Youngblood and V. L. Huber (Eds.) Readings in Personnel and Human Resource Management. 3rd edition, St. Paul: West Publishing, 1987.

20. Other factors that can influence or describe the human resources practices actually used include the politics of a firm, the preference of top management, hierarchical considerations, what other firms are doing, what the firm has done in the past, the type of technology, size and age of firm, unionization statues, the legal environment and its structure (see R. K. Kazanjian and R. Drazin, "Implementing Manufacturing Innovations: Critical Choices of Structure and Staffing Roles," Human Resource Management, Fall 1986, pp. 385-404.)

21. H. DePree, Business as Unusual. Zeeland, MI: Herman Miller, 1986.

22. D. Machalaba, "United Parcel Service Gets Deliveries Done By Driving Its Workers," The Wall Street Journal, April 22, 1986, pp. 1 and 23.

23. C. Fombrun, "An Interview with Reginald Jones," Organizational Dynamics, Winter 1982, pp. 42-49.

24. The Boston Globe, January 27, 1985.

25. A. Sharplin, "The Lincoln Electric Company, 1984." In G. A. Steiner, J. B. Miner and E. R. Gray. Management Policy and Strategy. 3rd Edition. New York: Macmillan, 1986, pp. 822-842.

26. Here is where the importance of transformational leadership has become recognized. For more on its uses, impact and description see N. Tichy and M. Devanna, Transformational Leadership (New York: Wiley & Sons, 1986).

27. As reported in Schuler and Macmillan, "Gaining Competitive Advantage through Human Resource Management Practices."

28. For a nice discussion of relevant issues see D. Q. Mills, "When Employees Make Concessions," Harvard Business Review, May-June 1983, pp. 103-113; and R. R. Rehder and M. M. Smith, Kaizen and the Art of Labor Relations, Personnel Journal, December 1986, pp. 83-94.

29. For an excellent discussion of the difficulties to be overcome in dealing with changing from human resource practices based on hierarchy or status to those based on performance or what's needed see R. M. Kanter, "The New Workforce Meets the Changing Workplace: Strains, Dilemmas, and Contradictions in Attempts to Implement Participative and Entrepreneurial Management," Human Resource Management, Winter 1986, pp. 515-538.

30. Recent attacks on public and private firms have been summarized by the use of the word "corpocracy." A description of corpocracy is found in M. Green and J. F. Berry, "Takeovers, a Symptom of Corpocracy," The New York Times, December 3, 1986.

31. The application of these human resource practices to strategy can be done by a firm on itself and even upon other firms that may be upstream or downstream of the focal firm. For a further description see Schuler and Macmillan, "Gaining Competitive Advantage Through Human Resource Management Practice."

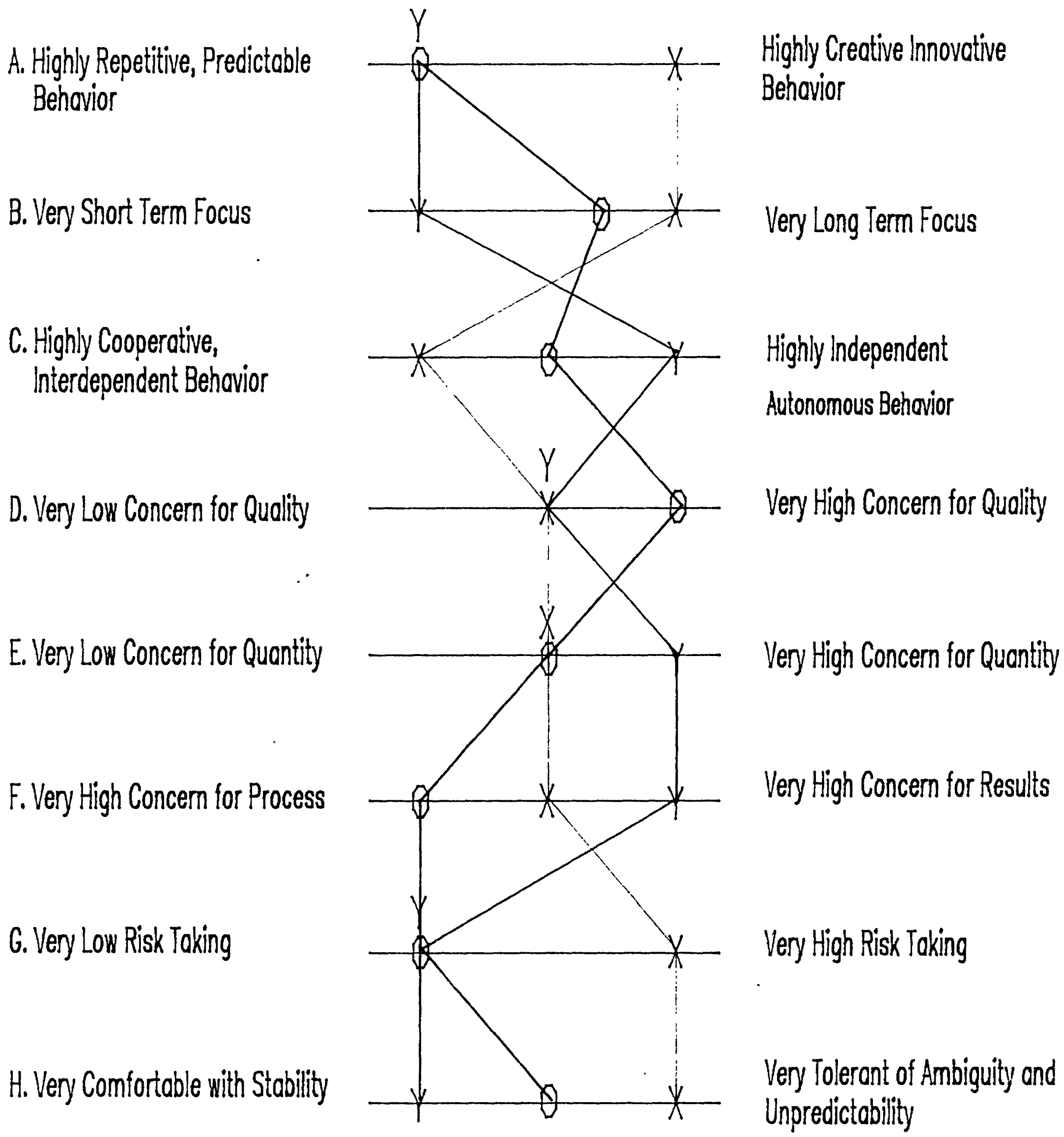
Exhibit 1

CHOICES IN HUMAN RESOURCE MANAGEMENT PRACTICES

Narrowly designed jobs; few skills needed	Broadly designed jobs; many skills needed
Staffing needs met by promotion from within	Staffing needs met by external recruiting
Narrow career paths encourage specialization	Broad career paths used to develop generalists
Performance appraisals emphasize individual actions	Performance appraisals emphasize group actions
Performance appraisals emphasize processes and behaviors	Performance appraisals emphasize results
Little employment security	High employment security
Little use of Incentive-based pay	Extensive use of incentive-based pay
Internal pay equity is primary concern	External (Market-based) equity is primary concern
Minimal training provided by the firm	Extensive training provided by the firm
Traditional labor-management relations	Nontraditional labor-management relations

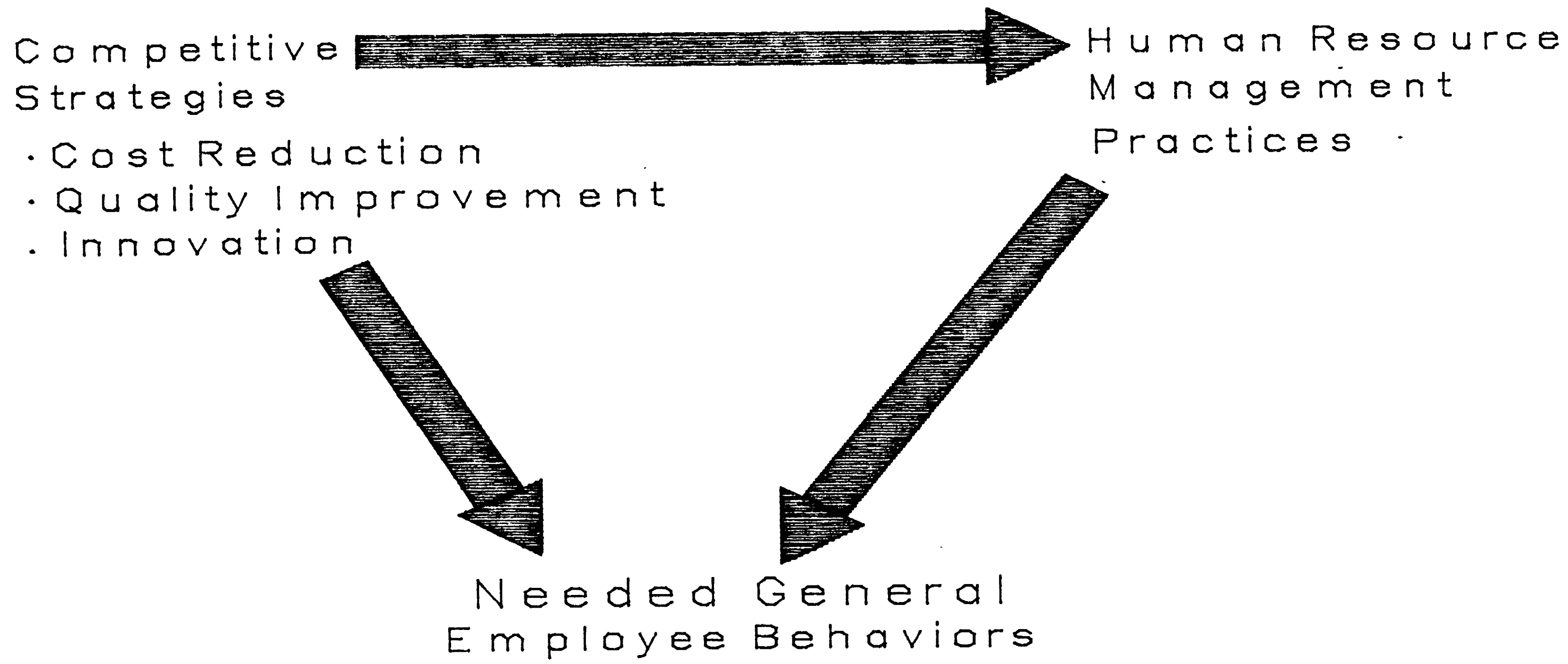
Exhibit 2

GENERAL
EMPLOYEE BEHAVIORS
FOR STRATEGY EXECUTION



- Quality (0)
- Cost Red. (Y)
- Innovation (X)

Figure 1


Competitive
Strategies
· Cost Reduction
· Quality Improvement
. Innovation
Human Resource
Management
Practices
Needed General
Employee Behaviors