

## Human Resources as Strategic Partner: Source of Sustainable Competitive Advantage

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### Abstract

*Strategic Partner entails develop vision and craft competitive strategy with an eye to creating competitiveness and reaping competitive advantage of a firm. Human resource departments (HRDs) can play essential roles in achieving those goals if strategic routes are open for them as strategic partner. The role of HRD ranges from no-separate portfolio, separate portfolio, consultant, facilitator, line manager to strategic partner. A survey of 140 firms reveals that only 25% of HRD knows how corporate plan is made and 73% respondents disappointingly replied that major decisions are taken without their inputs. The poor strategic performance of HRD as dependent variable is attributed to four explanatory independent variables. They are compatibility of information, redtapism, short-term focus and quantifiability of outcomes. The study finds that 'Time focus', 'redtapism' and 'quantifiability of HR outcomes' directly influence the strategic performance of HRD. Compatibility of information is not found statistically significant. It may have indirect influence. The model indicates that HRD to be strategic partner should ponder on making long term strategic planning, reducing excessive bureaucratic formalities to be strategically flexible and quantifying outcomes, which are easily measurable and doable. This model is found explaining 42.6% (adjusted R square) of the total variation of strategic partnership of HRD.*

**Keywords:** Human resource department, strategic partner, redtapism, Human Resource information

### Introduction

Human Resource Development turns the key to success of a firm. The assumption of stability in market has been replaced by the notion of instability and dynamism. Human Resource is the only resource, which can avail opportunities of managing changes effectively and efficiently. A firm can sustain competitive advantages if they derive from distinctive competencies of human resources capabilities. Human Resource Department, as a core department of organization, selects trains and develops those human resources in the organization. Thus it is strongly advised that human resource department be used as strategic partner for creating and exploiting organizational competitiveness in the market. The role of human resource department (HRD)

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incepts from conventional department to apex as strategic partner. Human Resources functions are becoming diversified to impact organization so as to match the external and internal changes. Moreover, the alignment is getting momentum. Human resources alignment means integrating decisions about people with decisions about the results an organization is trying to obtain. (US office of Personnel Management). Strategic Human Resource practices enhance the productivity of human resources. Productivity gains from the diffusion of technological innovations are now incorporated into both public and private sector organizations. Future productivity gains must focus on how people use these technologies. Over time, as the field's focus has shifted from "show what" to "show how" (Dyer & Shafer, 1999). Strategic involvement of human resource is a solution to strategy execution. Because certain organizational goals require certain employee behaviors and that certain human resource strategies produce certain employee behaviors, and that the task of the human resource strategist is to uncover and test these linkages (Cappelli & Singh, 1992; Schuler & Jackson, 1987; see also Delery & Shaw, 2001).

Organization lives lively with human resources. An organization can wage in competition if it has a repository of human expertise that manages other resources with intangible competencies. Now-a-days, human resources are considered critical factors to success. HRD is immensely potential. People – the only repository of knowledge – are the main resource. Roles of HR are largely felt as source of sustainable competitive advantage by the firms now a days. Research shows (Becker and Huselid, 2003) that firms can seal up long term competitiveness for the organization creating valuable competencies from HR stronger than creating competencies from other resources. Knowledge, orientation, training, reward system etc contribute to develop effort and skill. The latter factors make up chunk of competencies and enlarge human capacity. Development of human capacity also enable organization to meeting pre-set goals. Organizations bring people and invest on them to help grow up.

The correlation among human resource practices, string of human competencies, competitive advantage and above-average return are obvious. More interestingly, HR practices as casing indicator are producing financial outcomes as leading indicators. Resource-based model (RBM) suggests that an organization can outperform externally with other competitors if it has sound internal competencies. Since HR is claimant of celebrating internal competencies, RBM is unthinkable without it. Though HR practices are to align to organizational vision and strategy, role of HR in hierarchy varies from no HR portfolio to involving HR as strategic partner.

### **Objectives of the study**

The broad objective of this study is to examine the role of Human Resources Department in enhancing competitiveness of a firm in Bangladesh. The specific objectives are

1. To review the strategic role played by Human Resource Department universally.
2. To develop a model relating to the variables like compatibility of HR information, quantifiability of HR outcomes, redtapism of HR, time focus as explanatory to strategic partnership of HRD in Bangladesh.

## Methodology

This is an explanatory type research. A survey was conducted in Bangladeshi context in 140 medium and large firms to do this research. FBCCI (Federation of Bangladesh Chamber of Commerce and Industries) and NBR (National Board of Revenue) directories were used to define target population (medium and large firms). Collected data were fed in SPSS (Statistical Package for the Social Sciences) to run regression model.

## Questionnaire

Two sets of questionnaires were developed to collect data. One is composed of two types of questions such as general statements and strategic statements in dichotomous pattern. The other is made on predictor variables affecting strategic performance of HRD as strategic partner in interval scale.

## Sample size determination

A pilot survey on 20 firms was conducted to estimate population proportion. 18 out of 20 firms positively answered that they had HR department and practices.

$$\text{Sample size, } n = \frac{z^2 pq}{d^2}$$

Where,

$$P = .90$$

$$Q = 1 - .90 = .10$$

$$z^2 = 1.96 \text{ at } 95\% \text{ level of significance.}$$

$$D = .05$$

Thus,

$$N = \frac{(1.96)^2 (.90) (.10)}{(.05)^2}$$

$$= 138 \text{ or } 140 \text{ (rounded)}$$

## HR as Strategic Partner

Intangible assets hold the key to competitive advantage in business today. Yet, managing these intangibles as assets, in an environment where conventional accounting standards often measure them as costs, is particularly challenging (Becker, Huselid and Ulrich, 2001). Most often, firm trumpets that human resource is valuable to strategic success but it remains as rhetoric. This HR paradox needs to be addressed for all successful firms. Strategic choices lackluster if strategic partnership with human resource does not fit effectively. Strategic partner is a critical factor in strategy execution. The term strategic partner refers to a party, which carries on the responsibility of strategy execution with idiosyncratic competencies, which are also supported by others. Yeung, Woolcock, & Sullivan (1996, p-48) wrote that to sustain the transformation of HR function, HR professionals must develop and demonstrate a new set of competencies to fulfill their changing roles and responsibilities. Its role turns into strategic asset that is difficult to

duplicate or trade. Intangible assets are increasingly important as sources of value creation, and that both strategy implementation and management systems are key dimensions of these intangible assets (.Becker, Huselid and Ulrich, 2001, p-3). An unlikely paradox is that the very intangibility of human capital that makes it so difficult to measure and evaluate, also proves to be the one quality that makes it a strategic asset (Haridas, 2008, p-2). There is a need of strategic perspective of Human Resource in the strategy execution of the organization. The scenario is still ambiguous that how HR contribution helps achieve strategic success because of unavailability of proper measurement tools. HR scorecard has recently managed to become useful tool to many cases. However, the role of HR can be viewed from no-portfolio to strategic partner (figure 1).



**Figure-1: Hierarchical role of human resource management in organization (created by authors)**

**HR without portfolio:** Other officials such as vice-chairman, second manager, executives, administrative head etc usually perform HR functions.

**HR with separate portfolio:** There is a separate HR portfolio but the department is limited to only some technical functions of HR such as recruitment and selection, compensation uploads etc.

**HR as consultant:** Here HR department proceeds with providing recommendation, advice to the management in addition to performing above-mentioned technical functions.

**HR as facilitator:** HR department moves one-step further. They not only recommend or advise to management but also harness environment and facilitate continuously to implement them exploiting resources.

**HR as line manager:** HR department actively participates in achieving organizational goals and objectives. They here pursue both departmental goal internally and organizational goal externally. **NB:** A line manager who heads a revenue-generating department and is responsible for achieving an organization's main objectives by executing functions such as policy making, target setting, decision making (businessdictionary.com)

**HR as strategic partner:** HR department joining with other departments develops vision, mission and strategy of the organization for creating core competencies and thereby achieving sustainable competitiveness in the industry. HR as strategic partner is to identify methods for renovating the parts of the organizational architecture that need it. (Dave Ulrich, 1998, p-3)

Our survey of 140 medium to large organizations in Bangladesh reveals that 90% of responding organizations have HR department and do some technical functions. On the other hand, only 6.7% of respondents use HR as strategic partner.

### Analysis and Findings

Human Resource department is asked whether it is qualified to align with organizational vision and strategy. The following questions in Y/N dichotomous style are intended to know familiarity of HRD with organizational strategic literature. The first five questions about general direction of the organization reveal strong positive responses. First question shows that 98% of the respondents (HRD) understand the mainstream of their business model. 94% say that they know who the potential and actual customers are and how customers perceive branding of the organization. 88% and 82% of respondents know the major financial indicators and technological disruption affecting organizational direction respectively. 77% of HRD are capable of listing quickly major initiative, which indicates strong relationship with the other functional departments.

**Table-1**

<b>General Statements</b>	<b>Yes</b>	<b>No</b>
Do you understand the business?	98%	2%
Do you know who your customers are?	94%	6%
Do you know what financial indicators are important to the company?	88%	12%
Do you know what major technological change will affect your work?	82%	18%
Can you quickly list the major initiatives of your organization?	77%	33%

The following questions (Table-2) are strategically made to expose involvement of HRD in developing vision and crafting strategies for the organization. The responses show clearly that contribution of HRD in strategy map levers little. The alignment between HRD functions and organizational goals and strategies is quite mentionable around 71% but 75% respondents responded that they are not involved with the procedure regarding how corporate plan is made in the organization. Major organizational decisions regarding course of action plan are hardly made by HRD inputs. Around 74% responded as negative. There is a paradigm shift in the HR professional's functionality from "what I do" to "what I deliver" This shift is working on HR to be strategic partner. But, 73% respondents replied that they are focused and measured by management based on what they do but not on what they deliver.

**Table -2**

<b>Strategic Statements</b>	<b>Yes</b>	<b>No</b>
Do you align HR programs, policies and practices with organizational strategies and goals?	71%	29%
Do you know how the corporate PLAN IS made?	25%	75%
Are major organizational decisions made with your input?	26%	74%
Are the people focused and measured on technical functions and not deliverables by management?	27%	73%

The contrast between responses on above two charts clearly indicates that management feels little need of HRD as a source of competitiveness. Top managers don't see HR as a profession. HR is viewed as personnel experts, not experts in the business. Therefore, any resource allocation to people and program of HR is seen as high and redundant.

**Table-3**

<b>Descriptive Statistics</b>			
	Mean	Std. Deviation	Std. Error
HR as Strategic Partner	2.3438	.97945	.129
Compatibility of HR Information	2.4219	.88738	.144
Quantifiability of HR Outcomes	3.0469	1.06054	.100
Redtapism of HR	2.9062	.93806	.115
Time Focus	2.2188	.86316	.146

Table 3 shows the mean, standard deviation and standard error of mean of five strategy related questions that were asked. It seems that respondents are mostly indifferent about their strategic roles. Relatively small standard errors ranging from .10 to .14 indicate that the sample mean of different strategic issues as well as mean of overall strategic performance is very close to those of the population means.

**Table-4: Product Moment Correlations among Independent Variables**

	Time Focus	Redtapism of HR	Quantifiability of HR Outcomes
Compatibility of HR Information	.324**	.339**	.145
Time Focus		.258*	.282*
Redtapism of HR			-.283*

\*\* . Correlation is significant at the 0.01 level (2 tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

Table 4 shows product moment correlations among the independent variables. Though correlations among independently variables are found to be statistically significant, they are not found strong enough to cause any multicollinearity problem. Besides, the Average Inter-Item Correlation is found to be  $r_{ij} = 0.271$ , which is again low enough to conclude that there is no multicollinearity problem.

**Table 5: Correlation between Independent and Dependent Variables**

Independent Var. \ Dependent Var.	Compatibility of HR Information	Time Focus	Redtapism of HR	Quantifiability of HR Outcomes
HR as Strategic Partner	.304*	.496*	-.275*	.595**

\*\* . Correlation is significant at the 0.01 level (2 tailed).

\* . Correlation is significant at the 0.05 level (2-tailed).

Table 5 shows product moment correlations between Strategic Partnership of HR and all independent variables. It is observed that correlation between *Quantifiability of HR outcomes* and *HR as Strategic Partner* is .595 while other variables are not controlled. In similar fashion, correlation between *Compatibility of HR information* and *HR as Strategic partner* is .304; between *Time Focus* with *HR as Strategic Partner* is .496. Finally, independent variable *Redtapism of HR* and dependent variable *HR as Strategic Partner* is negatively correlated which is -.275. It means more formalities and bureaucratic work of HR halt HR to play role as strategic partner. All these correlations are found statistically significant at .01 & .05 level, and their strengths range from weak to moderate.

**Table 6: ANOVA<sup>b</sup>**

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	27.971	4	6.993	12.707	.000 <sup>a</sup>
Residual	32.467	136	.550		
Total	60.438	140			

a. Predictors: (Constant), Compatibility of HR Information, Time Focus, Redtapism of HR and Quantifiability of HR Outcomes

b. Dependent Variable: HR as Strategic Partner

Table 6 shows whether independent variables i.e. ‘Compatibility of HR Information’, ‘Time Focus’, ‘Redtapism of HR’ and ‘Quantifiability of HR Outcomes’ are capable of influencing the dependent variable ‘HR as Strategic Partner’. The computed value of F [ F = 12.707, df = 4, 59] shows that the model is statistically significant and it is highly likely that at least one of the independent variables is capable of influencing the “HR as Strategic Partner”.

**Table 7: Model Summary<sup>b</sup>**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.680 <sup>a</sup>	.463	.426	.74181	1.838

a. Predictors: (Constant), Compatibility of HR Information, Time Focus, Redtapism of HR and Quantifiability of HR Outcomes

b. Dependent Variable: HR as Strategic Partner

Table 7 shows that the correlation (R) between actual score of dependent variable with the predicted values of dependent variable on best-fitted regression line is .680, which is good enough. It is evident from the same table that the model explains as much as 46.3% of the variation of the “HR as Strategic Partner” (Adjusted R squared = 0.426). Durbin-Watson statistic substantially shows absence of autocorrelation in the residuals from the regression analysis.

**Table 8: Multiple Regression Analysis**

<i>Independent Variables</i>	<i>Standardized Coefficients Beta (<math>\beta</math>)</i>	<i>t</i>	<i>Sig.</i>
Compatibility of HR Information	-.151	-1.160	.251
Time Focus	.515	4.780	.000
Redtapism of HR	-.228	-2.071	.043
Quantifiability of HR Outcomes	.404	3.146	.003

In above table 8, the Standardized Beta Coefficient ( $\beta$ ) of ‘Time Focus’ over HR as Strategic Partner is found to be statistically significant ( $t = 4.780$ ,  $p = 0.000$ ) and positive ( $\beta = 4.780$ ). For ‘Quantifiability of HR Outcomes’, the Standardized Beta Coefficient ( $\beta$ ) is also found statistically significant and positive. ( $\beta = .404$ ,  $t = 3.146$  &  $p = .003$ ). But for ‘Redtapism of HR’, the Standardized Beta Coefficient is found statistically significant but negative. ( $\beta = -.228$ ,  $t = -2.071$  &  $p = .043$ ). The first two positive results mean that they (‘Time Focus’ and ‘Quantifiability of HR Outcomes’) have direct effect over HR as strategic partner to increase. But the last variable (‘Redtapism of HR’) produces negative result, which means that it has direct effect on ‘HR as strategic partner’ but to decrease. In the case of the rest variable ‘Compatibility of HR Information’, P value shows that it is statistically insignificant ( $\beta = -.151$ ,  $t = -1.160$  &  $p = .251$ ). It means that this variable has no direct effect on dependent variable “HR as Strategic Partner” but may have indirect effect.

## Conclusion

The objective of this study was twofold such as to determine the degree of role played by human resource department universally and to empirically find out explanatory variables responsible for low strategic performance of HRD in Bangladesh. The empirical results indicate that there exist significant positive Product Moment Correlations of strategic performance with compatibility of

HR information, Time focuses and quantifiability of HR outcomes but negative correlation with redtapism.

The multiple regression analysis shows that 'Time focuses', 'Redtapism' and 'Quantifiability of HR outcomes' have direct influence over the strategic performance of HRD as strategic partner but not 'Compatibility of HR information. Further research may be conducted whether HR information are incompatible with strategic performance. The model developed through this study indicates that HR manager should focus on long term orientation, reduce cumbersome formalities and quantify HR outcomes so that HRD can contribute to overall business level strategy as strategic partner.

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