

# INNOVATIVE HR PRACTICES FOR COMPETITIVE ADVANTAGE: A STRATEGIC PERSPECTIVE

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**Abstract** *High performing workforce has a positive impact on the company's performance. It has been realized since 1990s. Since then the focus of competition is gradually shifting from products and finances to that of talent management. It is believed that the star performers if managed and retained well; will generate strong competitive advantage for the company and will have magnanimous cost and behavior implications. So the companies have gone a long way to deeply engage their employees and are competing on the same. It has resulted not only in revolutionizing the way business is done but also reducing employee turnover to the minimum limits as against the high industry standards. The study uses a sample of five companies from Fortune 500 best employers from retail sector to understand how they have generated competitive advantage via human resources.*

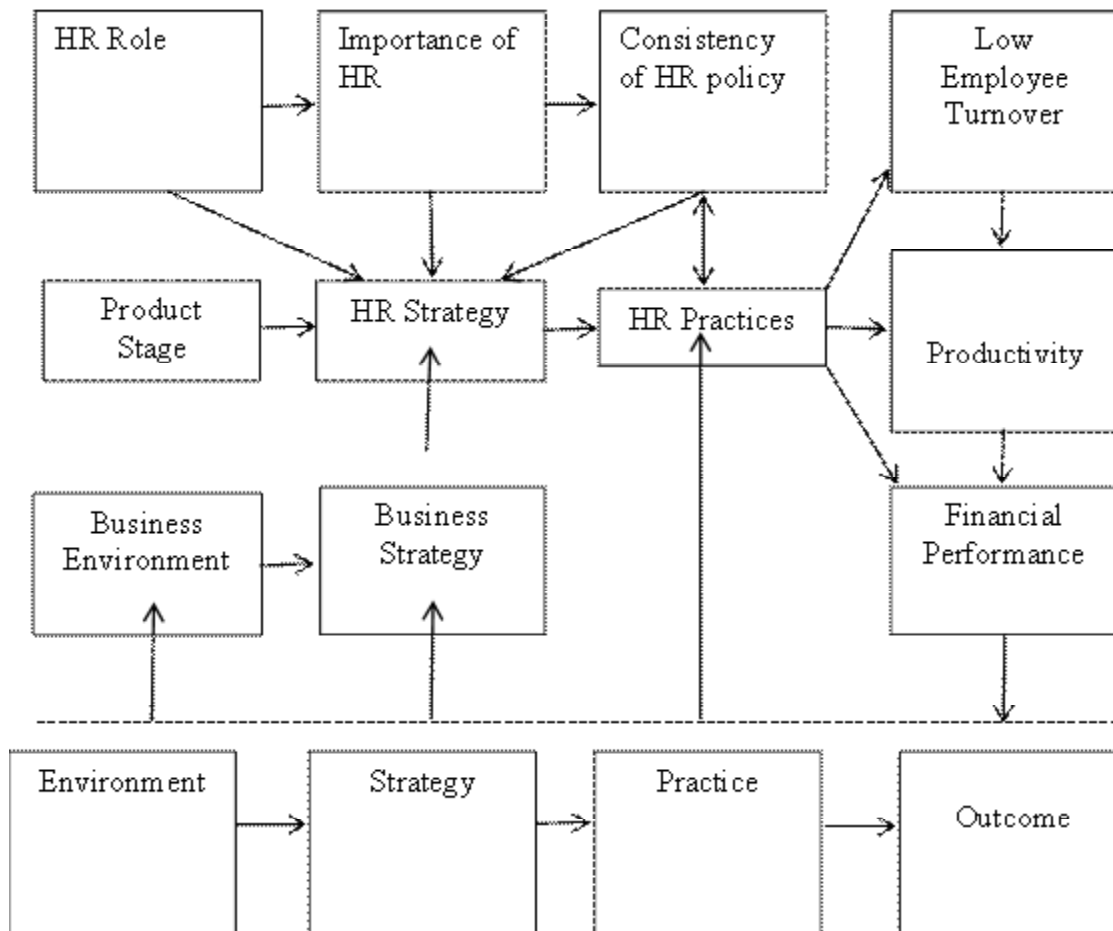
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Today business climate is forcing a paradigm shift in the role which HR plays; right from administrative support to strategic function, organization's greatest assets are its people. Long held notion that HR will become a truly strategic function is finally being realized now. Human capital is perceived as an asset. A strategic shift is also observed in developed economies which is having a ripple effect and is creeping its way into emerging economies. The companies have entered into the domain of managing and retaining the best talent. Battling over finances and products has gone into the back drop; firms are competing on the basis of talent now. Products and finances have almost being standardized, so now is the turn of human capital. The firm believes that if one capitalizes more on their employees, it will help in giving par excellent services at less cost and time, which will serve as a basis of competition over its rivals. According to Peter Capelli, Professor, Wharton School of Business – Boards look forward to HR from a number of perspective ranging from retention to skill gaps, talent plans for aligning employees with organizational goals. Talent management has become a strategic imperative that underpins the company's ability to achieve its goals. Today high potential employees are placed in talent pools and are prepared for possible advancement.

It is believed that both larger and smaller companies who nurture their talent and try to retain and develop them are likely to outperform their industry peers. When the knowledgeable employees leave the company the consequences are far beyond the cost implication of recruiting and training

new ones. More important perspective is that even if the employees are retained in the firm, their contribution depends on their willingness to perform. Therefore it is essential not only to retain but also motivate employees to perform (Duncan & Hoffman 1981; Becker and Huselid 1996). Human Resource Management Practices have immediate consequence for the motivation, loyalty, well-being and retention of talented employees and such practices are also called as "high involvement Practices, Commitment HR system" or "innovative" or "flexible. They can be better termed as Best Practices. The HRM policies and the organizational outcomes are interconnected.

Based on statistics from American Management Association, cost associated with losing, hiring and training a new employee ranges from 25 to 200 percent of annual compensation. The higher the position the higher the cost goes. On the other hand, the new generation is highly selective and conscious about its career. It explores what is distinctive about the company's workplace culture, specifically, what is special, unique or unusual about the organization and what is there for them in it. Millennials desire to advance quickly and want immediate answers and feedback as they are technology enabled. So it becomes all the more challenging. The problem is compounded by the retiring workforce who was typically experienced in management or technically complex positions.



**Fig.1** Block Diagram Depicting the Inter Connections of HRM practices and Organizational Outcome

Source: Pfeffer J. (1994) "Competitive Advantage Through People: Unleashing The Power Of The Workforce", Boston, M.A: HBS Press

## REVIEW OF STUDIES

A number of studies have been done in this area since 1980s. Since then authors have realized that human asset should be considered as profit centre and not to be seen as cost centre. Following this maxim, expenditure done on manpower is viewed as an investment. The early study of Schuler & Jackson (1987) explicitly states that when managers of those times realized that they were going to have quite different missions, they also realized that they should have quite different people to run them. So changing businesses and missions were focused on; following which the managers were also sensitized towards the role of workforce.

In 1990s, the papers and studies focused on the recognition of paradigm shift in developed economies towards the role and contribution of manpower in any organization. Cummings (1994) in his working paper series stated that the competitive world has made a paradigm shift inevitable for HR function. He states that the managers should understand it and proactively respond. Further Lawler (1995) finds HR to be the upcoming resource for any business organization,

therefore now the time has come to recognize the expenditures on human resource and also acknowledge the revenue portion of them, i.e. the business generated by them. Following this Caligiuri & Stroke (1998) studied that in successful organizations, global HR is perceived to be making a contribution and actually is making a contribution to the overall financial performance of the organization.

Adding to this, Jassim (2000) in his paper raised three questions regarding identifying, defending and achieving competitive advantage through the employees. Further he has discussed the practical criteria of best practice for generating competitive advantage. The research studies conducted after 2000, started using the buzzword "Talent management". Now is the time when corporate started designing innovative HR practices for attracting and retaining talent. Ashok Som (2008) found that innovative recruitment and compensation practices have a positive significant relationship with firm performance while Jackson (2009) draws a link between strategy and talent management and also explains in his paper strategic differentiating capabilities to support his view HR is business. Interestingly another variable which might

appear to be obvious but seemed to be neglected has actually benefited the firm's performance and that is the superior's emotional support and guidance given to subordinates in attaining higher levels of performance (Meghna & Pramod 2012). Following these best practices corporates are trying to emerge as the employer of choice and are pushing across the employer branding dimension. (Dawn & Biswas 2010)

## METHODOLOGY

- The study is exploratory in nature which examines the innovative HR practices used by the best employers of the world to attract and retain employees. These firms are using their innovative practices to gain competitive advantage over their rival firms.
- The best practices of the firms identified, belong to retail sector. Retail sector is taken into consideration because of two reasons, firstly the companies which fell into the first 10 best employer world wide and retained their position from 2006 to 2010. Secondly, no significant differential practices were observed in IT sector.
- The period of the study considered is from 2006 to 2010.
- The sample of five companies selected is based on the ranks published by Fortune 500 magazine under the head – best employers of the respective years. Those firms which could not retain their ranks in first ten went out of sample.
- The variables identified for the study are the ones which are benchmarked by Fortune 500 magazine .
- The list of companies is enclosed in Annexure I and CHART I depicts their performance and also their relation with voluntary employee turnover.
- The data for the respective five firms is taken from their respective website, snapshots given by cnmney.com under the heading firm stats. Various other research papers and comments of analysts have also been collected to support the study.

## BEST HR PRACTICE AS COMPETITIVE ADVANTAGE

### American Economy and Retail Sector

As per the definition of retail in US, all the firms which sell the finished goods to the end user are considered to be retail. However sometimes restaurants and automotive related business are considered to report economic data separately. According to US Census Bureau the total sales of

retail in (including restaurant and automotive) US economy accounted for \$4.14 trillion. As per the predictions of Deloitte report the retail sector started struggling with the inception of housing market crash and financial melt down since late 2008. Before that in December 2007, US economy observed the beginning of global massive retail recession.

Against this back drop it becomes imperative to see that how did these companies (which featured in the best employer rank by Fortune 500) responded to recession and still were able to compete using innovative and novel HR practices. This section of the paper focuses on the unique practices which each of the firm follows in order to generate competitive advantage over and above other retail firms. To start with oldest player in this segment Wegmans Food Market.

### Competitive HR strategies for Employee Engagement

#### Wegmans Food market: Employees first Customer second

Wegman's clearly leverages employee relations as a driver for competitive advantage. The firm keeps its slogan as "Employees first and customers second". It uses the internal marketing concept and believes that Wegman's path to great customer service begins with investment in their people. This is clearly evident from the statistics that voluntary employee turnover for this firm is lowest in the industry 4 to 8 % for the past five years and 20 % as against the industry average of 79% (which sometimes going even beyond 100%). Some of the remarkable features which create competitive advantage for the firm include their people philosophy which has five components: care, high standards, making a difference, respect, and empowerment. It is rare to hear that in this industry where layoffs take place, this firm has never laid off a single employee since inception. The company provides state of art service and atmosphere to employees. The company is using elements like job sharing, compressed week and telecommuting which directly affect the work life of an individual. The firm is practising this since 2007, and currently no firm belonging to retail sector practices it.

Wegmans stores are much larger than regular supermarkets, ranging between 80,000 and 130,000 square feet in size, yet as a business strategy, they invest in people, which makes a difference in employees work. Employees build higher sense of purpose. The firm also uses the route of CSR to create value. During hurricane last year, the company sent employees for Red Cross training and paid their salary when they were deployed for hurricane relief in hard-hit regions. Wegmans encourages young people to work and also supports their educational goals. Since 2003, more than 16,000 employees have received a total of \$52 million in

education assistance. Nearly 6,000 employees have one or more family members working at Wegmans' 66 stores or corporate headquarters.

### **Nugget Market: Family Oriented Work Environment**

Next in line for discussion is the second oldest firm among the best employer in retail segment which is Nugget market. They compete on company's culture and quality. Nugget Markets values a family-oriented work environment; one that supports a healthy work/life balance. The company offers outstanding benefits such as it pays its employees for sick days they didn't use. It also provides incentives to come into work every day. Yet another policy is "servant leader" policy to promote open door to invite and share ideas.

Apart from Container Store they also use trainings to compete with their rivals. They expose employees to a series of training sessions which they call it as "Nugget University", with the sole aim of inculcating excellent customer service skills. A broad range of knowledge is also imparted regarding food, food origin, traditions etc.

### **Container Store: Training as Competitive Edge**

Container store is the third oldest retail firm among the five best employer worldwide. The company uses training and unique recruitment practices as their competitive advantage. In the first year of employment, the employee gets training of 185 hours as against the industry standard of 8 hours per annum. Now the hours have been increased to 241 as they believe that to come with an out of box solutions, one works with intuition, but intuition comes to only well prepared minds. An offshoot of this is that company trains the manpower for different roles and leverages employee skills for different career path. So the employees do not get caught in low ceiling jobs. The company has a focused people strategy: hire for fit; train comprehensively; pay and support for longevity.

As far as recruitment is concerned the company follows a unique practice. The recruitment at the shop floor is done by employees themselves. As the team is appraised at the term end, so the team itself decides whether to take a new candidate or reject as it will affect their targets as a team. 41 % of new hires at different levels come from employee referrals. Container store cultivates employee loyalty. It provides with higher-than-average salaries and benefits, extensive training and feedback, and room for advancement to loyal employees. Another core business philosophy of the firm is one great person equals three good people. It implies that they hire the best candidate whose productivity is equal to three ordinary candidates; which enables them to pay the employee more than the rival firms. Here the employee

wins as he is getting more salary than any other firm. Firm wins as it's getting three times the productivity at two times the payroll costs. In the end customer wins because he gets excellent services from highly committed and well trained workforce. Lastly the company believes in family values and they are all members of company.

### **Whole Foods market: Stakeholder Focused Culture**

A year after the establishment of Container Store, Whole Foods Market was set up. Whole Foods Market distinguishes itself and competes on transparency basis, recruitment practice as inspired by Container store and open and decentralized communication. Whole Foods Market believes in voluntary disclosure of critical financial information. Strunk, VP HR, says that it is a knowledge based company where they don't believe in hiding information from employees. Adding to this the company follows a salary cap, wherein CEO's John Mackey's pay was restricted to 16 times to that of the average annual salary of full time employees. This creates trust among employees. The company's recruitment practice is similar to that of container store where the decision to hire or not is decentralized. . It also allows the store to handle employee issues internally which is cheaper and quicker than having someone from a corporate coming to investigate. It checks and floats the team concept rather than individual; as applicants should be ready to be recognized as team. The decentralized issue is also addressed here. Everyday all the employees express their views freely on any issue and HR department reads it and addresses it. The company propagates through its mission "Whole Foods, Whole People, Whole Planet" that it cares about both environment and people, hence goes a long way to ensure that the products they are buying from their vendors and other sources adhere to the quality standard and are eco friendly.

### **Zappos: Pay New Employees to Quit & Maintain Business Fit**

Lastly the study discusses Zappos.com. Among all the above mentioned firms this is the most recently established one in 1999 and is shoe retail. But it has a certain set of unique practices which none of them have. The key word for them is vibrant culture wrapped up in the mission of happiness. The way the culture is generated, maintained and preserved is something novel. The company takes it very seriously. The culture mania actually begins with the recruitment of the candidate. Zappos has revolutionized the way business is done. What Amazon did for books, Zappos did for shoes. Zappos provide an intensive 5 week training to understand culture, products, processes and systems. Those candidates who feel that they are not passionate about this work or somehow lack interest in doing such work are given a bonus

of \$2000 the first day and are asked to quit. The company calls it as “quitting bonus”.

According to Zappos CEO Tony Hsieh, the culture for employee will be a business fit one. CEO wants to see deeply engaged employees who are truly passionate about their work and company. During their lengthy and rigorous recruitment process they are actually judged right from the time when they are picked from airport by the shuttle. In the words of Hsieh “What most candidates don’t realize is that the interview started when they were picked up at the airport. That’s how we test their humility. The recruiting manager will circle back with the shuttle driver later and ask how they were treated when the candidate thought they were off the clock”. Their core value among all is “Be Humble” and this is in deed. The consumers who take a tour of their office have remarked several times that they never felt that they are at a strange and lonely place. They were greeted and cared happily by their employees. An extraordinary thing about the company is that it is able to retain its culture even after its acquisition by Amazon.com in 2009. So happiness is their mission and they deliver wow to consumers. Zappos respect and celebrate every person’s individuality. Employees have written 300 page manual about culture.

## FINDINGS AND IMPLICATIONS

- The study analyzed and found that almost all the companies give financial and non financial lucrative benefits to their employees which are more or less similar in nature. These benefits can be called as Generic benefits. But the issue is what makes a competitive advantage. So every company uses one or the other HR function in such a way that no other company is doing it. This acts a competitive advantage for the company and can be called as specific benefits. For instance Container store uses training and recruitment, Zappos uses a package of mission happiness wrapped in vibrant culture with add on of quitting bonus, Wegmans uses its philosophy of Employees first customer second.
- Most of the retail companies have used culture as an element to make the employees hooked up to the company. The employees see the company as their second home. The philosophy works like this, when employees are happy and flourishing they will serve customers better.
- The next question which arises is - are these benefits worth or effective? The statistics gathered from different sources states that they are effective as voluntary employee turnover in all the five firms has reduced considerably and can be benchmarked against the industry average. Wegmans has the lowest turnover rate of 7 % (in 2010) against 78% of American retail industry. The other firms have also experienced very

low employee turnover such as Container Store 15%, Nugget Market 11%, Zappos 25% and Whole Foods Market 28%. Apart from this the interviews from various employees which were posted on website also indicated that employees are happy in working with them.

- The study also detected that lot of importance was given to work environment variables such as Job sharing, Telecommuting and compressed week. These variables are difficult to replicate in retail industry as they are a part of IT industry. No firm uses it except Wegmans Food Market. This can be learning for other retail firms as to how this concept can be implemented in retail.
- Another thing which came to the forefront is that all these five firms are highly selective in recruiting employees. Their hiring process is very stringent, probing and eliminative in nature. This indicates that they have carefully crafted the process to ensure that only those candidates should be taken who can fit in with their culture and so their approach is right person at the right place.
- All the HR functions are integrated with one another. A holistic approach is taken and the companies become conscious of taking only those people who can turn out to be their asset and are bankable. Companies look forward for a healthy long term relationship where performance is never compromised.
- Lastly, the researcher observed that the companies battle to secure loyalty of their employees; but the efforts are directed more towards strong or high performers. So the issue is how to identify, manage and retain a star performer?

## CONCLUSION

Towards the end of the paper the researcher would like to raise two issues. Firstly, companies are battling over hiring and keeping the best talent, using innovative HR practices, but how long will they be able to sustain their competitive advantage using that unique practice as these practices are imitable. Secondly, the entire paper talks from the perspective of employer, the second and the more dynamic side is ‘employee’. So the decision to leave or to remain works, rests with the employee. This will actually depend on the push and pull factors. Pull factors are lucrative practices thrown by employers; whereas employee finds an attractive offer from a new employer and push motives are the ones where the employee desires to end the unsatisfactory employment. Reasons for leaving can be numerous, high income, career opportunities, challenges, work culture, market position of the company, autonomy, access to information and strategic

development aspects, transparency, incentives.

Ending note for this paper would be companies having started towards new equilibrium of offering a bundle and package of unique HR practices which creates magic spell over the employee but sustainability is an issue.

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