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Gaining competitive advantage and business success through strategic HRD: an Indian experience

Biswajeet Pattanayak
Indian Institute of Management, Indore

Abstract: This article offers a case study of a strategic HRD initiative to enhance organizational performance. Based at a corporation in India, the initiative involved an action research component to understand factors hindering current performance and HRD interventions aligned to business strategy to address the identified factors. The case study illustrates the potentials for taking a strategic approach to improving performance through HRD.

Organizational strategy is basically concerned with the creation of missions and the setting of organizational objectives. Specific policies are then formulated and implemented to achieve those objectives, including policies, procedures, methods and programmes relating to the organization's human resources. Those policies and practices should be linked to business objectives and corporate strategy (Pfeiffer 1998), with human resource development having a key role in ensuring the strategic alignment of training and development, career development and cultural change to the overall performance improvement of the organization. Strategic HRD therefore aims to leverage and/or align HRD practices to build critical organizational capabilities that enable an organization to achieve its goals (Ulrich and Lake 1990).

Aligning HRD to the business is an essential component of achieving HRD effectiveness (Rao 1999). One integrative framework for achieving this (offered by Yeung and Berman 1997) used three paths through which HR practices can contribute to business performance: building organizational capabilities, improving employee satisfaction and shaping customer and shareholder satisfaction. This framework was used in the following case study in strategic HRD in an Indian corporation.

The setting

The liberalization, privatization and globalization of the Indian economy started in early 1990s and picked up pace in the second half of the decade. Indian organizations therefore faced new pressures to improve performance, and this increased the need for the strategic alignment of HRD activities with business strategy. However, in most Indian family-owned businesses, alignment of HRD tends to be hindered by the ritualistic nature of confining strategy decisions to the top decision-makers. This limits the synchronization between the competencies required to deliver future business

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activities and the competencies available in the organization. In order to bridge this gap, larger organizations have tended to develop existing employees, whereas smaller organizations have tended to hire developed people.

This case study is based on the implementation of strategic HRD in the Essar Group, one of India's leading business conglomerates with an asset base of over US $4 billion. The group is committed to the development of core sector and infrastructure business in India and abroad, and is involved with steel, shipping, oil and gas, power and telecommunications. One of its companies, Essar Steel, is currently the second largest in the Indian private sector, producing 2.2 million metric tons per annum (MMTPA) of hot rolled flat products in Hazira (Gujarat, India).

Understanding the context

The company started the commercial production in 1995 using the latest technology at an integrated steel plant. After two years, the company was concerned that production levels were below capacity – 1.5 MMTPA against the installed capacity of 2.0 MMTPA. In response, the company formed a team, the 'Plant Technology Cell', to study the problem. The cell reported concerns about people's competency and motivation, rather than technology. Subsequent observations, by this author, also identified that middle management executives perceived the organizational structure and processes as incapable of accommodating their views and ideas, and that front-line executives' morale was very low.

In 1998, Essar Steel Ltd sought to align HRD and business strategies, and to reformulate the entire HRD function based on the corporate and business strategy. This triggered an action research project with the objectives of: assessing the important dimensions of work culture as perceived by the employees; identifying the power dynamics in the organization; and suggesting intervention strategies. Employee perceptions and attitudes were collected through a voluntary questionnaire covering: organizational culture awareness, satisfaction, HRD climate, interpersonal relationships, trust, resistance to change and power dynamics. Out of 1,240 executives (employees working in the managerial cadre), 700 completed questionnaires, from across various levels and departments. The workmen were not covered in this study because they are not on the pay role of the company. They are on the pay roles of the outsourced agencies/contractors.

The major findings of the study include:

- The majority of employees felt that they were not recognized and rewarded positively.
- There was a poor perception of organizational clarity in terms of mission, vision and objectives.
- The DICE profile of the organization revealed that most employees valued evenness (methodical) as more important than other three facets – dominance (result oriented and assertive), influence (desire to win acceptance of people) and conformity (resistance to change).
- The organization valued knowledge, information, understanding and experience as sources of generating power dynamics in the company; for example, employees

perceived others as likely to respond if, 'I possess or have access to information that is valuable to others'.

A critical analysis of findings identified that the psychological environment in the company was characterized more or less by a centralized and authoritarian administration with a methodical orientation. This took several forms, including junior executives who perceived themselves as not being treated with adequate dignity, trust and respect, and employees who fostered the idea that 'there is no reward for good work; no punishment for bad work; therefore, why should I involve my self more?'

The analysis of employee perceptions and attitudes also identified the increasing importance being placed on the organization recognizing the individuality of employees. The workforce had an average age of 27 years and did not appreciate a mechanical, procedure-oriented, formal work structure, preferring instead to build a learning organization. Job security was not their prime concern; rather, they looked for more freedom of action, flexibility, autonomy and high performance. In terms of the role congruence model (Burke and Litwin 1989), employees were placing greater emphasis on transactional variables (management practices, structure, system, work-unit climate, task requirement, motivation and individual needs and values) rather than transformational variables (external environment, mission and strategy, leadership, organizational culture).

HRD actions

The research findings suggested links between low performance (capacity utilization) and low employee morale due to insecurity, poor communication, lack of professionalism, *ad hoc*-ism, etc. In response, the HRD department implemented the following actions.

Right-sizing instead of downsizing

The entire workforce was audited based on the job/skill requirements of the organization and the competences of each employee. Surplus people were shifted to other business units of the group wherever there was requirement. The incompetent people identified through the last three years' appraisal, after being given additional training, were asked to leave the organization with compensation. By the end of the six-month process, employees reported a greater sense of security about the organization. This action also addressed the previous unprofessional approach of removing people without valid reasons and also the *ad hoc* nature of work assignment allocation.

Developing a learning culture through continuous learning

In each department, employees were exposed to the latest technology and management techniques through workshops, discussions and technical sessions. They were also provided with all the facilities for establishing learning rooms with advanced multimedia audiovisual systems. Every month, the HRD department also circulated to heads of departments the latest journal articles on steel manufacturing and management techniques. As a result, improvements were observed in intra-department and inter-department communication.

Introduction of open house

An ‘open house’ forum was introduced to enable employees to air their problems and to ask superiors and directors questions about the company. These were held at the same time every month, and arranged so that all employees attended on rotation basis without hampering the production schedule. Open criticism was allowed; and issues raised were addressed and, where possible, resolved immediately. This activity started building the transparency, trust and open culture that was lacking in the organization to a very large extent. It also reduced the power distance among the workforce, resulting in junior executives feeling recognized and respected because their voice was heard

Organization of executive leadership camp

The young executives participated in a ten-day executive leadership camp held at a hill station (a town with a pleasant climate located on a hill-top away from the city). This exposed participants to a range of activities. For example, each day started with yoga and meditation at 6 am, followed by a group breakfast and classroom teaching on various management topics, including business communication, presentation skills and executive etiquette. The afternoons included outdoor activities, and in the evenings there were campfires and opportunities to interact with senior managers. The camp was designed to prepare young executives for greater teamwork, to teach business techniques and to develop a sense of organizational belonging and synergy. This initiative enhanced the junior executives’ morale and also helped them to develop a culture of learning and teamwork. In addition, the interaction with senior executives reduced the sense of power distance, which was earlier perceived as centralized and authoritarian.

Introduction of Willy Korf innovation award scheme

A reward scheme was developed and introduced to encourage individuals and groups to generate and suggest new ideas that could add value to the organization in terms of cost savings, improvements to the workplace or improved productivity. Employees who contributed valuable suggestions were recognized and rewarded financially in proportion to the savings. This helped to change the employees’ perception that there was no reward for good work.

Regular training with a target

Training was made compulsory, with each employee required to undergo at least seven days a year on topics identified through an analysis of training needs. This covered training for immediate application and for longer-term development. Employees could not be promoted without attending specific preparatory training to upgrade skills at the next level. This initiative helped in developing a learning culture throughout the organization.

Training programmes on areas of concern

Specific concerns with the production process were identified and explored with the help of technical experts from departments. This identified learning needs in the workforce and, as a result, extensive training on work procedures was completed at work premises. This helped employees to develop skills to break methodical ways of working.

Special programme

A four-point programme was introduced as a strategic step towards achieving business performance. The aim was to enhance the shareholders' value through employees' capacity enhancement, contribution enhancement, reduction in financial costs and enhancing the value of intangibles. Capacity enhancement was achieved through identifying competencies and upgrading them. The contribution enhancement programme, through motivational initiatives, made the employees understand that their contribution is very important to organizational growth, which resulted in achieving a higher contribution to the organization. Workshops were conducted to make the employees understand the importance of the value of intangibles like business ethics, human value, organizational transparency and the organizational ethos.

Results

Within two years of implementing the above strategies, production increased by 21 per cent, i.e., 0.873 million tonnes during the half-year ending 30 September 2000 *vis-à-vis* 0.721 million tonnes in the corresponding period of the year before. Down time was also reduced drastically, leading to an overall increase in productivity without changes in production technology. Further, the organization ended with the half-year (30 September 2000) sales volume up 28 per cent, i.e. 0.873 million tones *vis-à-vis* 0.680 million tones in the corresponding period last year and exports up, with a record level of 113 per cent, i.e. 0.443 million tones as compared to .208 million tones in the corresponding period the previous year. During this period, the company had not adopted any new marketing strategy nor was there any major change in the steel market.

To assess the impact of the interventions, the HRD department organized a feedback session with all the departmental heads. They recognized the interventions as the essential contributor to ensuring company success. Moreover, line managers reported that the employees' satisfaction and morale (especially for junior management) had increased and had a positive impact on production results.

Today Essar Steel is among the low-cost producers of steel by virtue of process integration from iron ore to steels, employee competence and motivation. This has resulted in Essar having one of the highest operating margins in India, with a dominant market share, especially in high-value-added products.

Implications

This case study concludes with a reflection on the situational nature of strategy formulation and its implications for generalizing the lessons from this study to other settings. Strategy formulation is generally company specific, and what might be good for one company might not be good for another. There is no one best organizational design, management style or method of working. Rather, different patterns of organization and management are most appropriate in different situations (Pfeiffer 1996), with the most appropriate strategy being determined by unique internal characteristics (organizational dynamics, culture, politics, etc.) and by environmental opportunities and threats.

This is true of companies in the same industry; hence what is right for ESSAR may not be right for other Indian steel producers. There are several examples of Indian organizations adopting popular strategies without examining them critically and finding that they fail. It is desirable that even the most popular strategy be critically examined by the organization considering its internal and external characteristics before adopting it. This does not imply that companies should ignore what others are doing. In fact, in the course of the competition, companies need to consider the strategies of the competitors explicitly in formulating their own strategy.

As the case study also demonstrates, in spite of the best technology, organizations cannot ignore the human dimension of performance. Strategic HRD therefore represents a key process for enhancing productivity and, as highlighted by Porter (1985), can help a firm to achieve a competitive advantage.

Address for correspondence

Dr Biswajeet Pattanayak
Professor, Indian Institute of Management
Rajendra Nagar
Indore-452012
India.
E-mail: bpattanayak@yahoo.com; biswajeet@iimidr.ac.in

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