



# Human Resource Strategy

*making the most of people*

## Are people really the principal source of sustained competitive advantage?

For a long time there has been a strong intellectual case for believing that the capability, motivation and direction of the people in an organisation is what differentiates the best performing organisations from the worst. Now there is an increasing body of practical evidence to support that view. We know that:

- Capital is widely available to those with a good business plan at record low interest rates.
- Technology and equipment is available to almost anyone, at a price.
- Product features can be copied, as can business processes, marketing plans and distribution strategies
- People costs are similar in any given geographic area and pretty well fixed in the short-term.

Yet we can see enormous differences in productivity, customer satisfaction and employee satisfaction even within the same industry and the same country and independently of the business cycle. The obvious big variable is the contribution made by people.

Much of the discussion on competitive differentiation has tended to focus on core competences, business processes, business models and being in the right industry. However, research into some of the remarkable commercial results coming from some organisations in a variety of highly competitive industries points to a different conclusion. The differences between the best and the norm are staggering, and the common factor was not what conventional business strategy would have predicted. For example:

*"The five top performing firms from 1972 to 1992 (in terms of their percentage returns on stock) were:*

*Southwest Airlines (with a return of 21,775%),  
Wal-Mart (a discount chain; 19,807%),  
Tyson Foods (a poultry producer; 18,118%),  
City Circuit (a video and appliance retailer; 16,410%),  
Plenum Publishing (with a return of 15,689%),*

*Yet during this period these industries (retailing, airlines, publishing and food processing) were characterised by massive competition and horrendous losses, widespread bankruptcy, virtually no barriers to entry (for airlines after 1978), little unique or proprietary technology, and many substitute products or services. And in 1972 none of these firms was the market-share leader.*

*The point here is not to throw out conventional strategic analysis based on economics but simply to note that the source of competitive advantage has shifted over time.*

*What these five successful firms tend to have in common is that for their sustained advantage, they rely not on technology, patents or strategic position, but on how they manage their work force."*

*'Competitive Advantage through People' by Jeffrey Pfeffer ISBN 0-87584413-8. Harvard Business School.*

Pfeffer extended his research and updated these figures into the late 1990s and confirmed the same results. Other research by Jim Collins, Marcus Buckingham, Curt Coffman and others produces similar evidence and conclusions.

In fact, you might say that real competitive differentiation derives from everyone in the organisation working intelligently, competently and consistently to provide customer satisfaction. That is the big variable, and the core of that is what people are able and willing to do.

The question for senior management, therefore, should be: 'How can we organise and manage ourselves so the people we work with can deliver, and want to deliver, superior performance in the eyes of customers?' The answer is much more complex than just salary and bonuses. It goes to the heart of why the organisation exists, whether those who work with and for it share its purpose and strategic goals, how much mutual respect exists between them and how committed they are to common values.

The goal of an HR Strategy is to address that question for each particular organisation and find the answers that are uniquely appropriate to it.

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