

# Theorizing Strategic Human Resource Development: Linking Financial Performance and Sustainable Competitive Advantage

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*This paper is to explore potential new underlying theory of strategic human resource development based on critiques of current theoretical foundations of HRD. It offers a new definition and model of Strategic HRD based on resource-based view of firm and human resource, with linkage to financial performance and competitiveness. Proposed new model includes five strategic approaches such as talent development, training/development, organization development, performance development, and leadership development; and two-stage strategic objectives: financial performances and sustainable competitive advantages.*

Keywords: Theorizing Strategic HRD, Performance, Competitiveness

The objective of this study is to explore potential new underlying theory and model of strategic human resource development (Strategic HRD) based on critiques of current theoretical foundations of HRD. Before proposing a new theory and model of Strategic HRD, a review and critique on existing HRD theories is necessary to find out where we are at the theoretical work of HRD; what is Strategic HRD vs. "non" Strategic HRD; whether it is prepared well to move to Strategic HRD; what the barriers are if applying the existing HRD theories to Strategic HRD. Further, if the current paradigms are not fit for strategic purpose; what needs to be revised from those existing theories or what new theory needs to be proposed for Strategic HRD? These research questions guide through following study of theorizing Strategic HRD.

## Problem Statement

The importance of theory to the development of professional disciplines such as HRD is one of the most frequently discussed topics in the field (Holton, 2002a; Kuchinke, 2000; Lynham, 2000; McLean, 1998; Swanson, 1999a, 2001; Torraco, 1997, 2004; Weinberger, 1998). Through years' diligent work on a variety of theoretical and conceptual work, it has been flourished on theory and theory-building of a broad area of HRD. Meanwhile, the topic of Strategic HRD (Garavan, 1991; Garavan *et al.*, 1995, 1998; Harrison, 1997; Higgs, 1989; Holden & Livian, 1993; Keep, 1989; Lee, 1996; McCracken & Wallace, 2000; Noel & Dennehy, 1991; O'Donnell & Garavan, 1997; Rainbird, 1995; Saggars, 1994; Sloman, 1994; Stewart & McGoldrick, 1996; Walton, 1999) and strategic role of HRD (Torraco & Swanson, 1995) has also been explored from broad-based literature in training, development, learning, and human resources during the last decade, across academia primarily in Europe and the U.S. However, there has been little consensus on what common definitions of Strategic HRD are and what strategic approaches and characteristics should be included in the model of Strategic HRD. In this paper, revision and new frameworks are proposed through examination and critique on the current theoretical work of HRD, thus moving towards a new definition and model of Strategic HRD.

The significances of this study are argued for at least following reasons: First, this research can add new knowledge to current theoretical work in HRD and specifically Strategic HRD through its synthesis and critique on current works. It benefits people interested in Strategic HRD theoretical research by providing a new conceptual framework work, new definition, and new model. A sound model will ground future research and practice, as providing conceptual framework for further empirical research. Particularly different from current models, talent development, performance development, and leadership development as proposed new strategic approaches in the new model are raised to the same extent of importance as training development (T&D) and organization development (OD) in the field of HRD. Second, for HRD practitioners who are often criticized by lacking of strategic linkages with business in practice thus curiously looking for strategic approaches in practical arena; a new model proposed by this study can help them refresh ideas beyond the current paradigms and link to their practices with two-stage strategic objectives: financial performance and sustainable competitive advantages.

Because of space limit, this paper begins with a brief review and critique on existing HRD theories. Then it discusses the barriers for current HRD theories if move to be strategic. At next part, it primarily offers a new

definition, theory, and model of Strategic HRD for better bridging the gap between the purpose of Strategic HRD and current paradigms. At the end, implications and conclusion are also included.

### **Literature review and critique on theoretical foundations of HRD**

An impressive number of theoretical works in HRD theory and theory building have contributed to the profession. The theories and bodies of knowledge that should rightfully constitute HRD's theoretical foundation have been debated in an effort to establish a sound theoretical foundation upon which to ground research and practice. Theoretical research in HRD is now at a stage where many avenues exist for further contributions to the field (Torraco, 2004). Major paradigms in the field include: performance, learning, and other perspectives such as change, etc.

*Performance paradigm:* Swanson (1995 & 2001) defines HRD is a process of developing and/or unleashing human expertise through organization development (OD) and personnel training and development (T&D) for the purpose of improving performance. An array of performance-centered theoretical framework and performance improvement models later have connected performance with HRD research and practice (Holton, 2002b; Swanson, 1999b; Swanson & Holton, 2001), trying to make HRD to the business table through a linkage with performance outcomes.

*Learning paradigm:* Chalofsky (1992) defined HRD is the study and practice of increasing the learning capacity of individuals, groups, collectives and organizations through the development and application of learning-based interventions for the purpose of optimizing human and organizational growth and effectiveness (p. 179). The concepts of varieties of learning are becoming important topics in HRD field. Particularly, learning organization has been found associated with firm's financial performance (Ellinger *et al.*, 2002).

Other perspectives also have enriched the knowledge base of theoretical HRD. For example, Gilley & Maycunich (2000) concluded that the HRD field consists of three professional practice domains: organizational learning, performance, and change. It clearly shows the linkage between the performance and the HRD field.

Performance paradigm has centered the stage of HRD theories for several reasons: First, it clearly points out the purpose of HRD policies and programs is to improve organizational performance through the process of T&D, OD, and career development. Second, it systematically discourses the relationship between theoretical foundations of HRD and other prominent disciplines (e.g., economics, psychology, and system theory). Third, performance paradigm makes it a good buy-in position for the practitioners in HRD especially in T&D, OD, and career development areas. HRD practitioners are willing to accept a theory which arguing the importance of HRD and importance of their job with "performance result". The language of "performance" is also much easily to effectively communicate for professionals in HRD practice and with the business leaders in their organizations and professional associations.

But performance paradigm merely regards performance and performance improvement as a sole objective of HRD policies and activities. It excludes other objectives of HRD functions, such as learning and others. 1) Because performance paradigm merely regards human factors as capital investment into the system and produces value-added performance in the form of goods and services (Swanson, 1999b); there have been critiques about this argument. Fenwick (2004) critiqued that existing HRD paradigms focus little on social justice and argued a critical model of HRD. Obviously HRD performance paradigm fails to explain why still some people work for the reasons other than economic outcomes, and fails to explain how they perceive their meaning of work, either in the realm of economics, or psychology, or system theory. 2) Its focus limits on performance improvement process and results at organizational level research and practice. However, it is not well sounded at individual and national (societal) level. As criticized by Lewis (2005) that there is the hurdle that human beings in the workplaces do not necessarily perceive of themselves as capital to be locked into systems and conditioned to yielding returns on investment of corporate shareholders. HRD at individual level seems like more focus on self-actualization and self-development, which using a variety of learning concepts as a major method to achieve this objective. On the other side, at national (societal) level, a National HRD strategy primarily requires and emphasizes on generating more high-end knowledge and skills, innovation, and sustainable development of a workforce to support the nation's competitive advantage in the world competition. Performance paradigm, therefore, needs to be revised to include the purposes for both individual HRD and National HRD. Only at organizational level, when talking about Strategic HRD, the current performance paradigm could provide a preliminary source for linking HRD to performance results, but it still needs to be further upgraded to support strategic objectives and to reflect strategic results ultimately.

Learning paradigm shares the dominance with performance paradigm in the area of theoretical foundations of HRD. A variety of learning concepts and learning theories has added new knowledge to the conceptual framework

of HRD and has gained popularity in HRD practice. Reflective learning, experiential learning, transformative learning, and social learning have firmly occupied the stage of human resource development both in research and practice. When talking about Strategic HRD and facing the challenge of strategic movement, the various learning concepts also need to find identity through linkage to strategic results and method matching with strategic process. Currently learning perspective has been found well suited for individual learners to pursue their learning objectives. But critics have been argued that the domains of learning concepts are too broad and too liberal for individual purpose of learning and growth. There is literature particularly finding there is relationship between learning organization and firm's financial performance (Ellinger *et al.*, 2002) and relationship between learning effectiveness and organizational performance (Baker & Sinkula, 1999); however, more empirical evidence needs to be present that learning concepts and learning instruments have direct effect on bottom line of organization, individual, and nation; which could connect learning to strategic objectives and results. Also, the "terms" of various learning concepts and learning instruments have not been effectively communicated with practitioners and business decision-makers yet. For example, how can HRD people get all projects well done, which they think are essential to organization; until they talk to the financial people or other business executives in their languages? How can HRD people effectively communicate with other people out of HR function (e.g., marketing, sales, technology) to convince them that learning will have a positive effect on performance? The answer is "using strategy", or "to be strategic", or "to link to financial performance and sustainable competitive advantage". Therefore, a strategic focus is argued to be added to the domains of learning paradigm in order to eliminate the distance between learning concepts and the strategic table.

### **Strategic HR and Strategic HRD**

Previous Strategic HRD literature (Garavan, 1991, 1995; McCracken & Wallace, 2000; Gilley & Maycunich, 2000; Walton, 1999; Yorks, 2005) are found mostly focused on bringing together and building on a comprehensive body of knowledge of Strategic HRD and strategic roles of HRD (Torraco & Swanson, 1995). But few HRD literature can be found to address specific Strategic HRD theoretical framework. Instead, in the related field, strategic human resource management (SHRM) has been particularly warm discussed for its theoretical perspectives (Delery & Doty, 1996; Pfeffer, 1995; Wright & McMahan, 1992). The situation of theoretical work Strategic HRD now is very similar to what it was for Strategic HRM a decade ago to gain its self-identity and enhance its own theoretical framework from the mother matrix.

For the purpose of this article, author defines *organizational Strategic HRD* as a systematic process of developing strategic human resources (which including talent development, training/development, organization development, performance development, and leadership development) in order to enable organization to achieve its strategic objectives which including financial performances and sustainable competitive advantages.

- Talent development: is a systematic process of hiring, selecting, and staffing talents and nurturing their learning capabilities in order to enable organization to achieve its strategic objectives.
- Training and development: is a systematic process of providing training and development of employees in order to enable organization to achieve its strategic objectives.
- Organization development: is a systematic process of implementing organizational wide change and development interventions in order to enable organization to achieve its strategic objectives.
- Performance development: is a systematic process of improving employees' performance, involvement, motivation, and commitment in order to enable organization to achieve its strategic objectives.
- Leadership development: is a systematic process of improving, enhancing, and developing organizational leaders' competency in order to enable organization to achieve its strategic objectives.

The theoretical foundation of this definition comes from the resource-based view of firm and human resource (Barney, 1991; Wright *et al.*, 1992; 2001). The resource-based view focuses on an internal analysis of the firm providing an extremely important avenue for researchers to examine the ways that firms attempt to develop human resources as a competitive advantage (Wright *et al.*, 1992). This theory provides a framework for viewing human resources as a pool of unique skills, knowledge, ability, and experience that can provide a resource to serve as a sustainable competitive advantage; which is different from traditional views of neoclassical economics and industrial organization (Lado *et al.*, 1992). Another research by Wright *et al.* (1992) also suggests four criteria for a sustainable competitive advantage and attempt to evaluate the conditions under which human resources meet these criteria: 1) In order for human resources to exist as a sustainable competitive advantage, they must provide value to the firm. 2) A resource must be rare if it is to be sustainable competitive advantage. 3) In order for a resource to be considered a sustainable competitive advantage, human resources must be inimitable. 4) A resource must not have substitutes if it is to be considered a sustainable competitive advantage. The propositions of the new definition and

model of Strategic HRD in this paper meet the criteria for HRD as a source of sustainable competitive advantage, which is argued as ultimate objective of Strategic HRD.

However, due to limit space, this paper only focuses on demonstration of organizational Strategic HRD and its model (which can be visualized in Figure 1 as following). But there are also definitions and models for Strategic HRD at both individual and national (societal) level:

*Individual Strategic HRD*: a systematic process of developing individual human expertise (which including learning, training/development, organization development, performance development, and leadership development) in order to enable individual to achieve his/her strategic objectives (individual competitiveness, knowledge, social justice).

*National Strategic HRD*: a systematic process of developing strategic human resources (which including talent development, training/development, organization development, performance development, and leadership development) in order to enable the nation (society) to achieve its strategic objectives (nation's global competitiveness and sustainable competitive advantages).

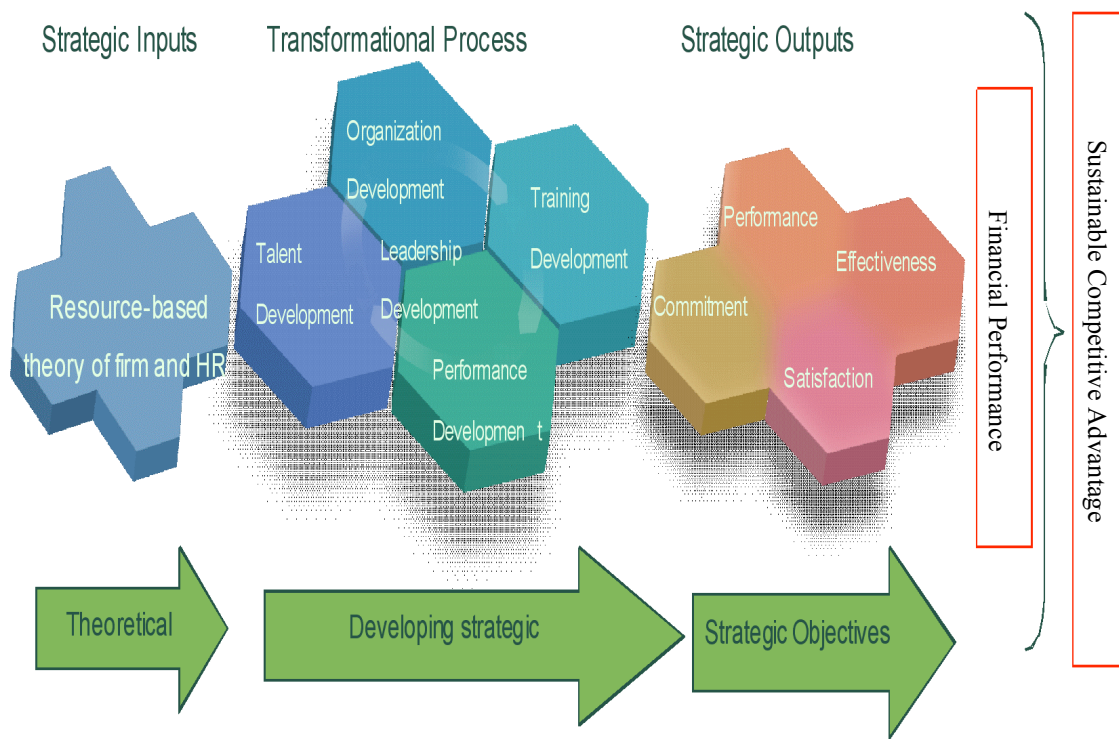


Figure 1. Strategic Human Resource Development Model (Organizational Level)

### Implications

Based on the profound resource-based view of firm and HR, this paper proposes a new definition and model of Strategic HRD, which including five strategic approaches such as talent development, training/development, organization development, performance development, and leadership development; and two-stage strategic objectives: financial performances and sustainable competitive advantages.

The proposed new definition and conceptual model of Strategic HRD has at least following contributions: First, the new definition and model of Strategic HRD has clear linkages between HRD approaches and organizational strategic results (e.g., financial performance, sustainable competitive advantage). It points out explicitly that the purpose of Strategic HRD is to link to organizational strategy and strategic results, which can be regarded as a

fundamental difference between "Strategic HRD" and "non-Strategic HRD". In other words, only HRD policies, programs, and activities which are relating to organizational strategy are defined as Strategic HRD. Also, in this model, meeting with the criteria for HR as a source of sustainable competitive advantage, the new model promotes the status quo of HRD and HRD professionals in the organization. Currently, although managers claim HR as firm's most important asset, many realities do not reflect this belief (Barney & Wright, 1998). HRD practitioners are often criticized for lacking of strategic linkages with business in practice thus cannot help but be away from strategic table. The new model proposed in this study help HRD professionals using business languages of strategic approaches and linking to two-stage strategic objectives: financial performance and sustainable competitive advantages. It is clear HRD is not just one of the strategic partners, but creating and maintaining sustainable competitive advantage through developing human resources as a strategy.

Second, the new definition and model includes five strategic HRD approaches: talent development, training/development, organization development, performance development, leadership development. Particularly different from other current models, talent development, performance development, and leadership development are new approaches added to the current Strategic HRD theoretical knowledge base, which cannot be found either in existed performance or learning paradigms. As proposed new strategic approaches, they are raised to the same extent of importance as popular training development and organization development in the field of HRD. The new definition and model thus expands the boundaries and framework not only for Strategic HRD but also expanding the knowledge base of HRD field both in research and practice.

Third, the new definition considers HRD at organizational level, as well as individual and national (societal) levels. This could be a source of new contribution in the field. It also need more research to justify in the future.

Finally, the new model of Strategic HRD is built on the resource-based view of firm and HR. This theory provides a framework for viewing human resources as a pool of unique skills, knowledge, ability, and experience that can provide a resource to serve as a sustainable competitive advantage. It is one of the most cited and empirically proved theories in organizational economics and strategic management literature (Barney, 1991). This paper boldly calls the consideration of the resource-based view of firm and HR as one of the theoretical foundations of HRD.

## Conclusion

This article first examines and critiques existing HRD performance, learning, and other paradigms. It identifies the barriers of moving current HRD theories to strategic focus. Further, this paper offers a new definition and model of Strategic HRD based on the resource-based view of firm and human resource. The implications of the new definition and model are also discussed. In the future, more research is desired to validate the model and further to provide empirical evidence to justify the new Strategic HRD model.

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