

## HUMAN RESOURCES PREMIUM AND COMPETITIVE ADVANTAGE

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### Abstract

The success and survival of a company in the knowledge economy is determined by a company's strategic framework and its implementation in managing the most important resource, the human resource. Any company that designs and implements human resource strategies in a superior manner to that of its competitors creates a niche in the labour market and succeeds in generating high level of human resource performance. This paper attempts to conceptualise this niche or Human Resource Premium and explore its application in strategic human resources management. A higher level of human resources premium delivers a higher level of human resource performance – a level that is higher than that of its competitors. This differential in human resource performance acts as human resource performance advantage for the company and leads to a sustainable competitive advantage.

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# HUMAN RESOURCES PREMIUM AND COMPETITIVE ADVANTAGE

## INTRODUCTION

The fundamental basis of long-run success of a firm is the achievement and maintenance of a sustainable competitive advantage (Varadarajan and Cunningham, 1995). In the knowledge economy, the human resource (HR) is considered as the most important resource of all other traditional factors of production (Business Week, 1994). In such an environment, a value creating strategy that is devised and implemented in a distinct manner to manage the human resources creates competitive advantage (Bharadwaj, Varadarajan and Fahy 1993). Such competitive advantage created through distinctive strategies gives the company a niche in the acquisition, retention and performance of human resources (Arnett and Obert 1995; Pfeffer and Veiga 1999; Dessler 1999). We refer to this niche as the Human Resources Premium.

The purpose of this paper is to conceptualise HR premium and discuss how it can be applied to strategic human resource management to help companies generate competitive advantage. The Oxford English Dictionary defines the term premium as “a value above the usual”. In similar lines, the concept of HR Premium can be referred to as any value created by a company by offering competitive benefits (monetary, non monetary and non-pecuniary) to the employees to achieve higher level of human resources performance. Any company which creates a higher level of HR premium to that of its competitors through distinctive strategies will succeed in creating a niche in the labour market to attract, retain and develop strategic competencies and behaviour.

The HR premium concept should give companies a perspective that when an employee is considering alternative employment opportunities, he/she not only takes into consideration the monetary and non-monetary benefits component but also the non-pecuniary benefit characteristics associated with the employment (Cappelli, 2000; Heneman, 1985). The employee will choose an employment opportunity that provides higher level of competitive benefits (Jensen, 1990). This understanding should help the companies to focus on increasing their HR premium levels. A higher level of HR premium should create a favourable preference in the minds of the employees to work for the company over the competitors.

For example, Company A offers monetary and non-monetary benefit package of \$50,000 and its competitor Company B offers a similar benefit package of \$50,000 for a particular set of competencies. Both the companies have a HR premium level based on their benefits packages, which helps them to achieve their HR objectives. But Company A as a company has a better brand image, goodwill, good management & processes and better market standing in the industry compared to Company B. This allows Company A through effective HR strategies to use these unique characteristics (non-pecuniary characteristics) to position its benefit package of \$50,000 in such a manner that its current and prospective employees perceive it to be worth more than \$50,000. The labour market may place a premium on its competitive benefits package and value it at \$60,000, i.e., \$10,000 over its benefits package. The competitive benefits package is nothing but all the three categories of benefits in its entirety.

Company B with its not so effective strategies and inferior company characteristics will limit the company from positioning its benefit package of \$50,000 to create a higher premium. Moreover, Company B cannot improve its brand image, goodwill and market standing in the industry over night. This creates a difference in the level of premium between Company A and B ( $A_{HR} > B_{HR}$ , in Figure 1).

The difference in the level of HR premium of \$10,000 between Company A and B will provide Company A with a niche in the labour market that would allow it to enjoy a higher level of HR performance compared to Company B ( $A_p > B_p$ , in Figure 1). The difference in the level of HR performance creates a HR performance advantage for Company A over Company B, which it can use as a competitive advantage.

In the knowledge economy, there is need for firms to create HR premium to stay ahead of competition. Barney (1991) states that not all the resources of a firm hold the potential of generating a sustainable competitive advantage. Instead, only those resources that possess four attributes: rareness, value, inability to be imitated, and inability to be substituted can provide a sustainable competitive advantage. This

necessitates companies to combine its resources of financial, physical, human, informational, organisational and relational in unique and enduring ways to facilitate growth of human resource premium/specific core competencies, which gives a company with a sustainable source of competitive advantage (Prahalad and Hamel, 1990).

This enormous task of combining all the resources to generate HR premium is achieved over a longer period. In the process, the employees develop certain strategic competencies and behaviour, which are very crucial in sustaining existing competitive advantage and in generating new advantages. In such a situation, the task of managing and retaining strategic employees becomes the most important objective of the company, as any negligence in this issue will result in some distinct competencies migrating to the competitors (Prahalad and Hamel, 1990).

It is here that the concept of HR premium can play a big role in the knowledge economy. It can not only help the companies in managing and retaining strategic competencies but can also attract talented and resourceful employees from competitors and other fields to ensure future sustenance of the advantage.

The conceptualisation of HR premium in the article is organised in the following manner: A broad theoretical framework will be established using theories from the fields of economics, human resources and industrial psychology. This will be followed by a conceptualisation model, which explains the process of HR premium creation and its influence on competitive advantage. Finally, the concept will be explained using a real life case study of two companies in the computer peripherals industry, which is characterised by heavy competition for competencies and high employee turnover.

## **CONCEPTUALISATION OF HR PREMIUM**

### **Theoretical Background**

The study of economics is based on the principle that resources are scarce and the scarce resources will be employed in an opportunity that provides the maximum utility. In an economy irrespective of it being an industrial or a knowledge-based economy, all the factors of production (the land, the labour and the capital) are employed at a cost. The owners of the factors will employ them only in those economic opportunities, which provides them with the maximum utility (Samuelson et al, 1992). In other words, if there are more than one option to invest the factor of production, the owners will invest them in only that option which promises them the maximum benefit. This in short is also a summarised definition of the principle of maximum utility.

The labour - the center of knowledge, the most important factor of production in the knowledge economy is also employed by its owners based on the tenet of maximum return. However, unlike other factors, labour has one unique characteristic: the owner of this factor is the factor of production him/herself (Fernandes, 2001). Competence, expertise, skills set, experience, attitude and intellectual agility as a bundle form labour. The employee is the generator and end user of knowledge – the employee is the knowledge base of the company (Drucker, 1993).

The labour, being the owner and the factor of production, he/she decides on the quantity, quality, the place and the nature of activity he/she will be employed in. The company, which employs him/her, can only try to motivate and induce him/her to engage at his/her very best, but the level of his/her engagement depends entirely on him/her (Ray and Rinzler, 1993; Drucker, 1993). In addition, if the worker in discussion possesses unique competences in demand, then he/she will demand a higher wages for his/her engagement (Mason, 1988). This is because of the economic laws of demand and supply in operation. Higher the demand, Higher the wages. Higher the Supply, Lower the wages (King, 1992).

The employees in tradition with the economic principle to maximise utility, with this newfound empowerment are migrating from one occupation to another and from one company to another looking for opportunities to invest their competence and expertise for an increased return (Waldroop, 2001). The company, which offers a better return for employing their competence, is been preferred (Jensen and

Murphy, 1990). It should be noted here that the return in discussion here is not just the monetary component, but also the non-monetary and non-pecuniary benefits that a company offers to its employees.

The equity theory of motivation in industrial psychology asserts that employees compare the benefits that they earn from their jobs with the benefits earned by their peers in similar jobs and with similar set of competencies and behaviour. This comparison is not just restricted to peers within the company but also with peers working in other companies in similar line of business (Adams, 1965; Greenberg, 1982; Summers & DeNisi, 1990). The employees will compare:

- the competitive benefits offered by his/her present employer,
- the relative levels of competitive benefits at different sources of employment
- the employees personal level of need to maximise utility.

In this comparison if employees feel that the employees in other companies are better off and are being offered more benefits for their inputs than they are, then a perception of inequity arises (Summers and Hendrix, 1991). Hellriegel and Slocum (1992) assert that in such a case the employee will choose one of several alternatives to change the inequity situation:

- Decrease the inputs into the job to compensate for low benefits.
- Rationalise the inequity and do nothing about it.
- Increase their inputs to justify higher benefits offered to them.
- Quit the job and put in efforts to take up employment with the company, which offers more benefits.

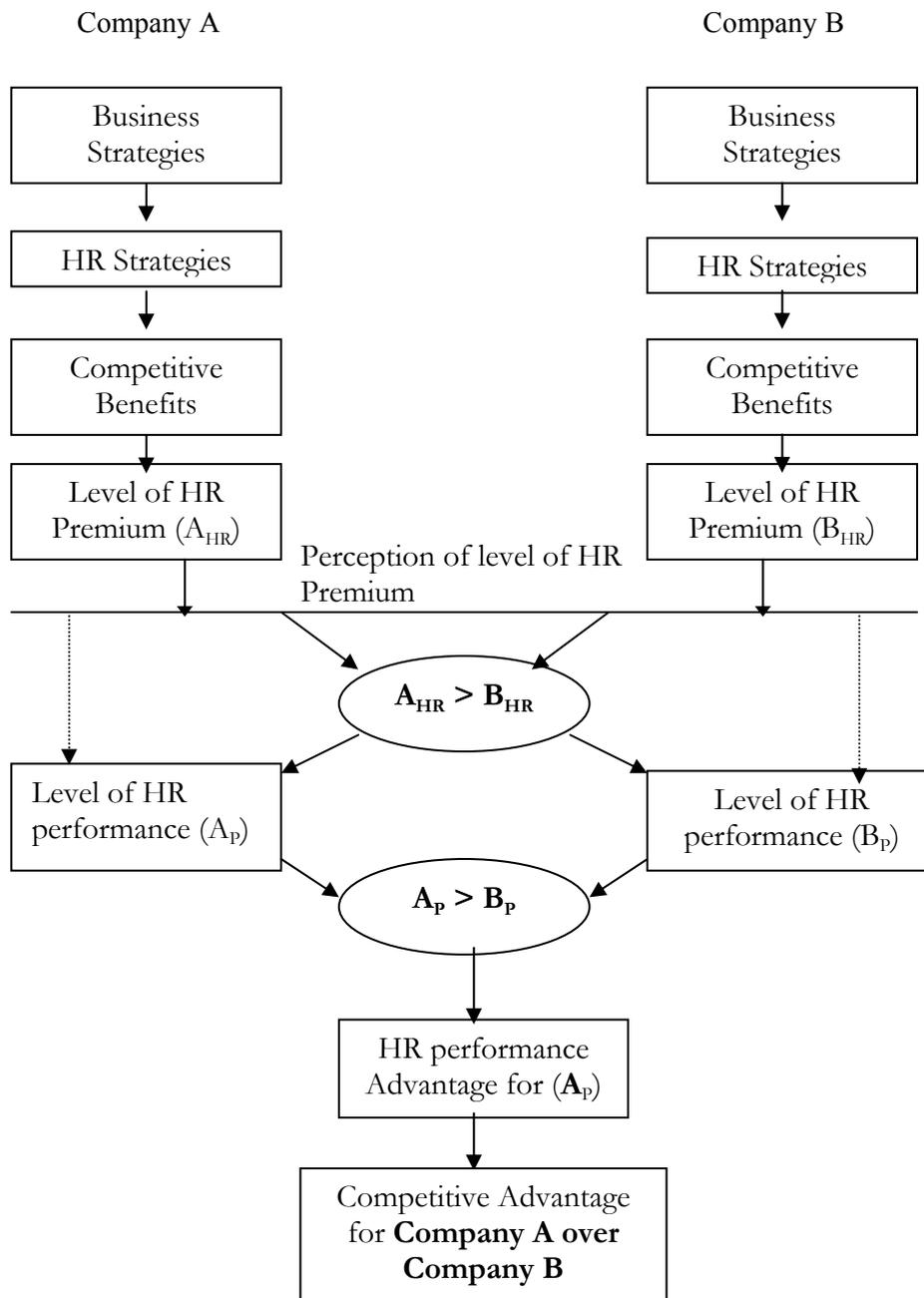
The decision to choose one of the alternatives depends entirely on the perception of the employee concerned and the decision taken should vary from one employee to another depending on his/her perception of the inequity (Major & Deaux, 1982). Apart from this, an employees decision will also be influenced by his/her own level of elasticity to inequity (Kane, 2002). Some employees are very elastic to any minute inequity; they take big decisions like changing jobs. At the same time, some employees are very inelastic not taking note of inequity. This paper within its scope will consider the average elasticity of workers towards utility maximisation and go ahead with the HR premium conceptualisation.

Based on the theoretical background as discussed, a company generates a level of HR premium above that of its competitors. Then that would facilitate employees to perceive maximum benefit by continuing their employment with the present company rather than thinking about migrating to another job and they try to enhance their performance.

### **HR Premium Creation Process Model**

Every company draws business strategies to achieve some business objectives. HR strategies are designed to achieve a certain level of HR performance that will contribute towards the business objectives. The competitive benefits are the outcome of HR strategies and they influence the level of HR premium in a company. The HR premium process model (Figure 1) illustrates the process of HR premium creation in companies.

**Figure 1: The Process of HR Premium Creation and HR Performance Advantage Generation for Company A Over its Competitors B.**



### HR Strategy

In the knowledge economy the success and survival of a company depends on its business strategies and their effective implementation (Bharadwaj and Fahy 1993). The human resources being the most crucial resources of all others (Business Week, 1994), business strategies focus heavily on managing the HR through distinct strategies to develop competitive advantage. The aim of any HR strategy is to address issues relating to acquisition, retention, development and performance of human resources (Snell, 2001).

With these issues as primary focus, numerous strategic human resource practices are designed to address the acquisition, retention, development and performance of human resources. The practices and strategies involve designing numerous benefit packages to achieve high level of HR performance. The strategies also

involve efforts to position the company's monetary, non-monetary and host of other non-pecuniary benefits to the employees in a manner that the employees perceive its HR premium level favourably to that of its competitors.

### **Competitive Benefits – The HR Premium Creating Factor**

In the HR premium conceptualisation, the benefits offered to the employee carry a much bigger meaning in comparison to the term wage, which seems to be conveying a very narrow message. The benefits offered to the employees include not only the monetary component (wages) but also non-monetary benefits and many non-pecuniary benefit characteristics associated with employment. This broad benefit structure offered to the employee can be referred as “competitive benefits”. It is competitive because it actively incorporates all aspects of business, industry and the economy into the benefits equation making the benefits passed on to the employee are competitive.

Taking the remuneration components in its entirety, the competitive benefits can be defined as a composition of the monetary benefits, non-monetary benefits and non-pecuniary benefits arising out of the characteristics associated with employment.

Monetary benefits are the benefits that are in the form of cash or easily cash-convertible component of the compensation package offered to an employee. It includes benefits like the wages, performance-based incentives, retirement fund contribution and equity stock options. The non-monetary benefit cannot be converted into cash, but helps the employee to improve his/her skill-set and expertise, which indirectly allows him/her to earn more monetary benefits and better career prospects (Ivancevich, 1997).

The non-pecuniary benefit is the most complex and is seemingly the biggest component of the competitive benefits package (Cappelli, 2000). This benefit accrues to an employee out of the characteristics related to one's employment or by being associated with a company. This component brings in elements like social status, job satisfaction, satisfaction of being in the cutting edge of technology, feeling of being a contributing part of the society and the environment etc into the benefits equation (Mitchell, 1982; Lawler, 1977).

Based on the studies conducted over the last two decades, (Cappelli, 2000; Harrigan and Dalmia, 1991; Drucker, 1993; Uinspire, 2002; Sutermeister, 1969; Shapiro, 1981), a brief summary of the three components: monetary, non-monetary and non-pecuniary characteristics related to employment corresponding to the main factors relating to job, management and the company is present below in Table 1.

**Table 1: The Competitive Benefits Composition Structure.**

Factors	Monetary Benefits	Non-Monetary benefits	Non-pecuniary benefits
Job	Wages Performance based monetary incentives Contribution towards retirement fund Equity Stock participating option Fringe benefits	Job security Training and development programs	Importance and scope of the role in value addition/wealth generation Level of exposure to new processes, projects and global economy The relative standing of the role in the future transformation of economy The scope of progression and career planning Physical risks associated with the job
Management Attitude	-----	-----	Level of commitment to company's goals and objectives Level of supervision and interference Mentoring Trust and confidence level in employees
Processes in place	-----	-----	Flow of information and level of information dissemination Quality standards and policies Reporting system and response system Systems in use and state of art technology in usage Safety measures
Business of the Company	Performance of the equity stock options	-----	Vision of the company Innovation Scale Level of global participation Its business plans and its future prospects Its domain of operation Its customer composition. Level of steward-ship General goodwill esp. at the stock market
Resources availability	-----	-----	Resources availability The state of art technology in use Availability of resources Ease of acquisition of resources
General	-----	-----	Leadership in place General employees attitude and skill level Level of team synergy in place Location of the business

It is very interesting to note that the workers in the knowledge economy are not only interested in the monetary and non-monetary benefit component of the remuneration package, but also with the non-pecuniary benefit characteristics that accrue out of the characteristics related to employment/association with a particular company (Cappelli, 2000; Herzberg, 2003). These three components together form the competitive benefits.

The competitive benefits being an outcome of HR strategy has a direct influence on the HR performance of a company. When these competitive benefits are positioned well by effective HR strategies and superior implementation, companies succeed in creating HR premium.

## **Level of HR Premium**

HR premium refers to the niche generated by a company over its competitors in the acquisition, retention and development of human resources through distinct and sometimes inimitable HR strategies. The strategies involve effective positioning of its monetary benefits in combination with host of other non-monetary benefits to make the total benefits or the competitive benefits offered to the employees more lucrative than that offered by the competitors. This generates a distinct preference in the minds of the employees to favour the company with higher HR premium/ higher competitive benefits (Jensen and Murphy, 1990) and this preference generates a niche in the labour market (Dessler, 1999).

Every company has its own level of HR premium. The HR premium is an outcome of a company's distinctiveness and effectiveness in its business and HR strategies. If a company succeeds in generating a level of HR premium above that of its competitors or companies competing for a set of HR strategic competencies, it creates a niche for itself in the labour market. This niche will help the company to generate distinct preference in the minds of the employees to prefer this company to others and achieves higher level of HR performance.

The level of HR premium can influence the level of HR performance of a company. A higher level of HR premium can result in higher level of HR performance. Studies have shown a strong positive link between higher benefits and higher level of HR performance (Herzberg, 2003). Any company with a higher level of HR premium should command a higher level of HR performance, and should create a HR performance differential advantage over its competitors. This HR performance advantage should provide the company with the needed competitive advantage over the others.

## **Perception of Level of HR Premium**

The nature and workings of the knowledge economy has brought some changes for the employees and has empowered them (Tulgan, 2001) by providing:

1. A high level of dissemination of information on all aspects of business including the financial matters of the company.
2. An almost perfect flow of information about all job characteristics, work environment, compensation, benefits, legislation and workers rights. This perfect flow of information is not just from within the company, but also from other companies in similar lines of business.
3. Sufficient mobility of labour between jobs, companies, industries and even countries.

These changes have not only given the employees access to information about the competitive benefits offered by the company but also about the benefits offered to their peers in other companies in the similar line of business (Tulgan, 2001). It has also given them the mobility to migrate from one job to another and from one company to another (Kane, 2002)

An employee will carefully consider the HR premium level of his/her company along with the HR premium levels of other companies in similar line of business before taking any decision to migrate. This careful scrutiny is in line with the economic principle to maximise utility and the equity theory of motivation to negate any inequality not in his favour. Upon careful scrutiny, he/she should perceive the HR premium level of his/her company favourably or unfavourably based on his/her elasticity to benefits and utility levels.

## **Level of HR Performance**

The aim of any HR strategy is to address issues relating to acquisition, retention, development and performance of human resources (Snell, 2001). These issues can be broadly summarised into four broad categories:

- Better retention of employee competencies
- Better attraction of new talents and competencies
- Well trained up to date competencies

- A very committed and better performing workforce

These four broad categories of HR outcome can be referred as “HR performance”. It can be said in other words, that the aim of HR strategies is to achieve higher levels of HR performance. In any company, the effectiveness of the HR strategy is gauged on its ability to acquire, retain and develop human resources and above all in its ability to bring out high level of performance (Blau & Kimberly, 1987). Effective HR strategies bring out higher levels of HR performance (Skinner, 1981). Hence, it can be theoretically stated that a company with a higher level of HR premium should enjoy a higher level of HR performance compared to the company with lower HR premium.

**Measure of HR Premium Level**

Taking the concept further into the general market environment where many players operate and compete for expertise, each company will have its own competitive benefits level and composition. When the competitive benefits levels of all the players are put together, we arrive at an average competitive benefits level, which acts as the general competitive benefits level of that industry ‘ $C_0$ ’ (Figure 2). It is at ‘ $C_0$ ’ level of competitive benefits that the aggregate demand (AD) for and supply (AS) of HR performance interact. Any competitive benefits level offered by a company above ‘ $0C_0$ ’ acts as a differential competitive benefits above the general competitive benefits level, and thereby has a premium over the others operating at or below the general competitive benefits level of ‘ $0C_0$ ’.

If a company succeeds in generating a premium that is up above all the companies in that industry, then the top cream of talented people will prefer and be willing to join the company. The company with the lowest competitive benefits (below ‘ $C_0$ ’) has to manage running the business with the residual talent available in the market.

**Figure 2: The aggregate demand and supply of labour interaction in the general market**

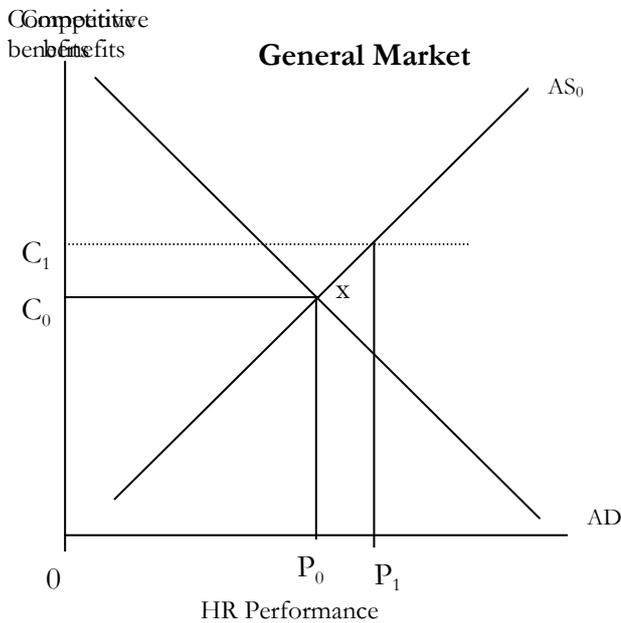


Figure 2: The aggregate demand and supply of labour interaction in the general market. The benchmark competitive benefits level is at  $C_0$ . Any thing above  $C_0$  acts as a premium over the average players. The company, which succeeds in generating the maximum ( $C_1 - C_0$ ) becomes the labour market leader and commands a big bargaining power. The bargaining power or the premium is the difference between  $0C_1 - 0C_0$ .

## HR Performance Advantage

A higher level of HR performance over its competitors indicates a niche or an edge over the competitors in managing human resources (Barney, 1991). This niche is a distinct advantage that a company has generated over the years by creating a level of HR premium over its competitors. This niche should help a company to command a higher level of HR performance compared to that of its competitors, and that creates HR Performance Advantage for a company over its competitors. The HR performance advantage adds to the competitive advantage that a company already has and such advantage cannot be easily imitated or destroyed.

## CASE STUDY

To make the conceptualisation process more focussed and rewarding, let us consider a case study of two companies operating in the Computer Peripherals Industry in India. These two companies together hold more than 95% of the market share of dot-matrix printers. The names of these two companies are intentionally left anonymous to maintain confidentiality. Let's call them Company A and Company B. Both the companies are into manufacturing and marketing of dot-matrix printers inkjet printers and storage products across the Indian sub-continent and in various countries in Africa and South East Asia.

The first author was associated with the HR department at an executive level for Company A and had access to many sources of information about both the companies including many classified surveys and studies conducted by both the companies. References have been provided in this case study wherever possible taking utmost care to keep the identity of the companies anonymous.

Company A has a workforce of around 325 people and had an annual turnover of A\$23 million in the financial year 2002. It is part of a business group, which has a diversified business portfolio, but with core business focus and huge presence in information technology sector. Company B employs around 270 people and had a turnover of A\$12.15 million in financial year 2002. Even this company is a part of a parent business group but with a core business focus in automobiles and electronics. Both the companies have manufacturing facilities close to one other in South India, and there is heavy competition between the two for strategic competencies and talents.

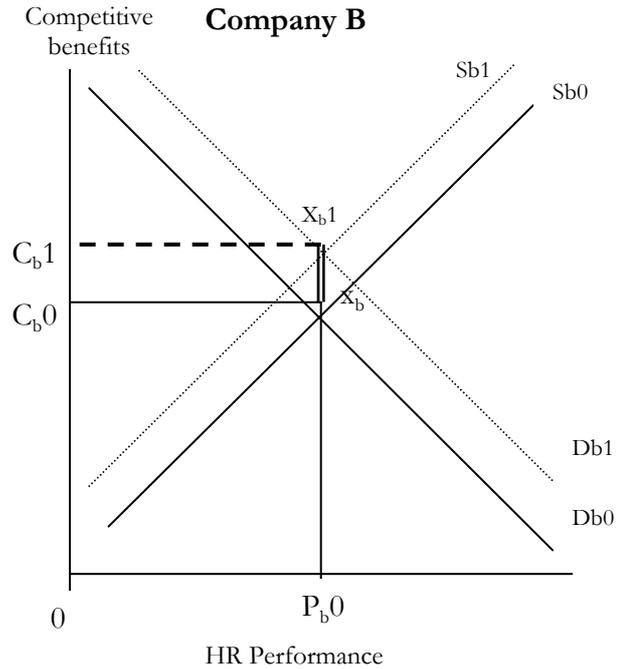
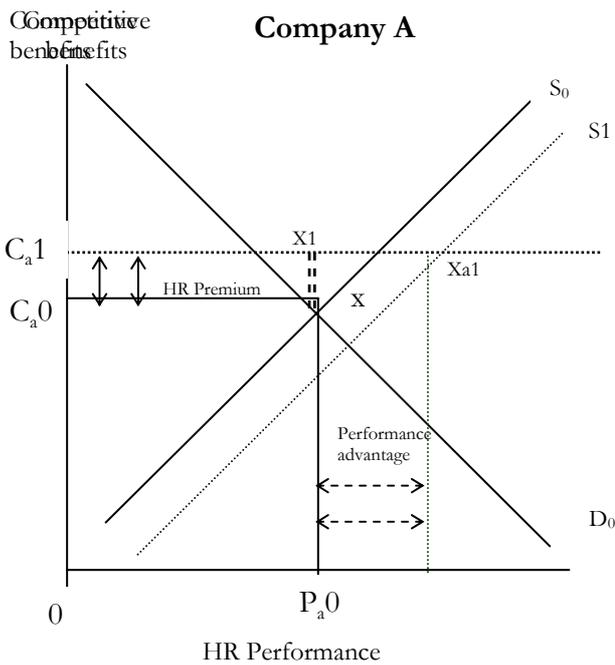
As these two companies together hold more than 95% of the dot-matrix printers market, they are the two major players in the market, and the rest form an insignificant number. Using their huge presence in the dot-matrix printer market as a premise, let's assume that there are the only two companies operating in this industry. This is to make the conceptualisation more focussed. Considering the industry they operate in, their relative market positions, geographical proximity of their facilities and heavy competition for competencies between each other, it is natural to assume that the level of competitive benefits at both the companies to be similar to each other (Maya, 2000).

Figures 2 and 3 illustrate the supply and demand curve interaction on individual company level, A and B. As per the traditional mathematical convention, the independent variable should form the X-axis and the dependent variable the Y-axis (Jackson 1994). However, in this paper, the independent variable 'Competitive benefits' is represented on the Y-axis and the dependent variable, the HR performance, in the X-axis. This is in line with the labour-wage interaction model adopted generally by economist. (Reynolds, 1991).

The supply curve 'S<sub>0</sub>' represents the supply level of 'HR performance' by employees and demand curve 'D<sub>0</sub>' represents the 'HR performance' demanded by the company for a corresponding 'competitive benefits' level.

**Figure 3.**

**Figure 4.**



**Figure 3**

- The demand  $D_0$  and supply  $S_0$  of HR performance interaction to the competitive benefit level. HR performance ' $OP_a0$ ' interacts with the new competitive benefits level ' $OC_a0$ ' at X
- Supply curve shifts from ' $S_a0$ ' to ' $S_a1$ ' to a change in efficient benefits component point from ' $C_a0$ ' to ' $C_a1$ '.
- HR performance ' $OP_a0$ ' interacts with the new competitive benefits level ' $OC_a1$ ' at  $X1$ , where it can acquire a HR performance of ' $OP_a1$ '. It also illustrates the premium created (' $OC_a1$ ' - ' $OC_a0$ ') in the Y-axis and the HR performance advantage region between ' $OP_a0$ ' and ' $OP_a1$ '.

**Figure 4**

- The demand  $D_0$  and supply  $S_0$  of HR performance interaction to the competitive benefit level. HR performance ' $OP_b0$ ' interacts with the new competitive benefits level ' $OC_b0$ ' at  $X_b$
- Supply curve shifts from ' $S_b0$ ' to ' $S_b1$ ' and interacts with the demand curve ' $Db_1$ ' at  $X_{b1}$  at a corresponding new efficient benefits component point of ' $C_b1$ '.

The curves ' $D_0$ ' and ' $S_0$ ' interact at point X. The competitive benefits level of ' $OC_a0$ ' in the Y-axis commands a 'HR performance' level of ' $OP_a0$ ' in the X-axis for Company A (Figure 3). Similarly, Company B commands HR performance level of ' $OP_b0$ ' to a competitive benefits level of ' $OC_b0$ ', and the curves ' $Db_0$ ' and ' $Sb_0$ ' interacting at ' $X_b$ ' (Figure 4). The competitive benefits level at this stage is assumed similar at both the companies. Hence, the HR premium levels, which are outcome of competitive benefits, of both the companies are presumed to be similar.

The HR premium level at Company A and B as a bundle of benefits are more or less similar. If all things remained constant, employees at both the companies will be indifferent to the idea of migrating from one company to another, as it would in no manner maximise or better their present utility levels. This is in line with the theory of compensating wage differentials (Smith, 1976), which states that when there is a wage differential across occupations, there will be migration from the occupation with lower wage to the

occupation with higher wages. This migration will continue as long as the wage differential exists and as long as there is a higher utility level associated with the migration.

However, the level of HR premium at Company A and Company B was not to be similar for too long. The information revolution that swept through India in the late 90's brought with it a multi-fold increase in turnover for the parent business group of Company A. This group with a huge presence in information technology took advantage of the changing business environment in India and the financial markets rewarded it handsomely. It went on to become the largest market capitalised group in the country and listed its scrip at the New York Stock Exchange (NYSE) in the year 2000. The business group had an annual turnover of around A\$1.24 billion and a market capitalisation of A\$45 billion in the financial year 2002.

Employees at Company A has been offered equity share options of the parent group as a part of their benefits package and with a stupendous performance of the parent group's shares in the stock market, they now enjoyed increased wealth. Apart from this, the financial performance of the parent group gave Company A with a ready access to huge resource base, big business/market network, higher status quo and bigger brand power. With this new image came re-engineering and the entire process and structure, cultural make over and steward-ship towards the society under went drastic changes in an effort to get in par with global standards. This didn't happen over night, it took years of strategic building and implementation to gain this distinct competitive advantage over its competitors.

However, at Company B it was a different story. Although it offered equity share options to its employees, the performance of the scrip was not comparable to that of Company A. The parent business group of Company B had a market capitalisation of A\$780 million and turnover of around A\$ 38 million in the financial year 2002. With a change in the business process structure, resource availability and a bigger brand image for Company A, the competitive benefits equation totally changed.

This change created a significant increase in the non-pecuniary benefit characteristics component associated with employment at Company A, relative to that at Company B. This change along with some changes in the non-monetary component changed the equation totally in favour of Company A. This increase pushed the original competitive benefits level '0C<sub>a0</sub>' to a new level of '0C<sub>a1</sub>'. This increase is illustrated in Figure 3 in dotted lines. This increase in the level of competitive benefits level takes the HR premium level of Company A higher relative to that of Company B.

As such ceteris paribus, keeping in line with the theory of compensating wage differential, employees at Company B will look for opportunities with Company A, as the relative utility at Company A is seemingly higher in comparison, and they did. An important factor that has to be taken into consideration here is that not only the employees at Company B be looking for opportunities at Company A, but workers from other occupations from other industries in business of electrical and electronics. This is because the workers from other field find this occupation more lucrative than their own occupation and want to migrate.

Another perspective is that a better competitive benefit in another company doesn't make all the workers to think of changing jobs. The decision to migrate from one job to another and from company to another depends on the relative utility level of each worker. Some workers are very elastic to the competitive benefits levels and some are inelastic.

The programmers and designers at Company B and from electronic and electrical industries perceived migrating to Company A presented a better opportunity to maximise utility than in their present employment. This caused a stir in the labour market and there was a surplus supply of talent people in offering than ever before.

This surplus supply of competence trying to take up employment with Company A created a pressure on the supply curve of Company A. This supply pressure also creates a pressure of competitiveness in the employees of Company A, who now have to increase their performance levels (0P<sub>a1</sub>) to a newer level to remain competitive and retain their job. If they don't rise their performance levels, then the company can easily replace them with a surplus supply of talent in the market. This caused a shift in the supply curve 'S<sub>0</sub>'

to 'S<sub>1</sub>' in line with the theory of supply curve to represent the increase in the supply of HR performance level for Company A (Figure 3).

With this change in the benefit equation at Company A and the stir in the labour market, Company B faces a different pressure filled situation. This is because of the internal pressure created by its workers for an increase in their benefits structure to match up with that overall competitive benefits level of Company A. The competitive benefits level of Company A being at a higher level at '0C<sub>a1</sub>' creates a situation at Company B forcing it either to match the competitive benefits or risk losing its programmers to Company A. This pressure caused the supply side of HR performance for Company B to decrease resulting in the supply curve 'S<sub>b0</sub>' shifting upward to 'S<sub>b1</sub>' to represent a fall in the supply of required competencies or employees ready to leave the Company B and join Company A (Figure 4).

The difference in competitive benefits ('0C<sub>a1</sub>'-'0C<sub>a0</sub>') in favour of Company A also causes discontentment among employees at Company B, which would eventually lead to other serious issues like unproductive behaviour, fall in morale, absenteeism, lack of involvement and commitment and lower productivity. A senior HR manager of Company B in a HR Conference (2001) pointed at these issues as the consequence of other leading companies having a niche in the labour market. These issues were also highlighted in an independent inter-company study between two companies and Company A was a part of the study (Setty, 1999).

The changing supply situation, supply shift from 'S<sub>b0</sub>' to 'S<sub>b1</sub>', puts Company B at risk of losing the '0P<sub>b0</sub>' level of HR performance, which it needs to keep its business going. Company B with a market share of around 40%, expanding product line and a growing demand for computer peripherals to capitalise on, requires '0P<sub>b0</sub>' level of HR performance to keep it going. Anything below that will only result in Company B losing its businesses to Company A. This gain of market share from competitors is one of the probable benefits that a company derives by building a strong HR premium.

If Company B has to maintain the HR performance level at '0P<sub>b0</sub>', it has to increase its recruitment to keep it at this requisite level. This is because employees are increasingly taking up opportunities with Company A, resulting in a shortage of workers at Company B. The shortage situation is made worse by its employee's falling productivity levels. Company B has to expand its recruitment program. Any expansionary plans to recruit will push the demand curve 'D<sub>b0</sub>' to 'D<sub>b1</sub>' as illustrated in Figure 4 in line with the mechanics of demand curve.

The new demand curve 'D<sub>b1</sub>' interacts with supply curve '0P<sub>b0</sub>' at X<sub>b1</sub> (Figure 4). If it succeeds in obtaining supply level 'S<sub>b1</sub>' of HR performance, it can keep its business going. However, this interaction to derive at a HR performance level of '0P<sub>b0</sub>' keeping in mind the new supply curve at 'S<sub>b1</sub>', the interaction doesn't come easy. It comes at a cost. It can be achieved only if the competitive benefits level of the company is at '0C<sub>b1</sub>' in the Y-axis. The competitive benefits have to increase from its previous level of '0C<sub>b0</sub>' to form a new higher level of '0C<sub>b1</sub>'.

However, increasing the competitive benefits level to increase its HR premium level is not that easy. It is because many of components that constitutes the competitive benefits are not purely monetary benefits but is build of many distinct non-pecuniary benefit characteristics that are difficult to imitate and developing such characteristics takes considerable amount of time. Company B can increase the monetary component of its competitive benefits package by some percentage to compensate for the difference, but it would only increase its monetary commitment over a long period of time. Apart from this, it would bring down the marginal return of such increase monetary component in the long-run (Reynolds,1991).

Company A has a recruitment strategy to fill up any gaps created by attrition and retrenchment with the very best available in the surplus labour pool. However, if it finds any talented worker in the labour market, it will go ahead and recruit him/her. This is not only to take care of any expansionary plans in the future, but also to make sure that talent doesn't end up joining Company B.

Company A had some rational behind its decision of not going for an aggressive recruitment to recruit all the best talents in the market. Its marketing strategy was giving it a firm grip over the peripherals market, and

apart from that the company had invested heavily on R&D over the last few years and had recruited heavily. It was a payback time now. All that it had to do was to sustain its position and taking into consideration the high productivity level of its existing workforce.

On the other hand, Company B with all its focus to maintain its HR performance level steady at  $'0P_b0'$  and faces an competitive benefits level of  $'0C_b1'$  to offer. The competitive benefits composition of Company A is very hard to imitate and increasing the monetary component to compensate for the differential is out of the equation. Hence, it has only few options to choose from, that is risk losing its talented programmers or recruit below par performers and accept low productivity levels. If this situation was to continue for long, it would result in a shortage of strategic knowledge resources and hypothetically the company would be losing its business to Company A and in the long run even face closure or takeover.

Considering the recruitment plans of Company A, the demand curve will continue to remain at  $'D_0'$ . This causes disequilibrium and the line  $'0P_a0'$  extends to meet  $'0C_a1'$  at X1. This is illustrated in Figure 3. The competitive benefits level of  $'0C_a1'$  interacts with the supply curve  $S_1$  at  $X_{a1}$  to form a corresponding point in the X-axis  $0P_a1'$ . This points indicates that Company A can acquire a supply of  $'0P_a1'$  of HR performance at an competitive benefits level of  $'0C_a1'$ .

The difference between  $'0P_a0'$  and  $'0P_a1'$  in the X-axis represents the opportunity for employees to increase HR performance with Company A. This niche is a distinct advantage that Company A has over its competitors. This niche in commanding a higher level of HR performance by a company compared to that of Company B is the HR Performance Advantage of Company A. This HR performance advantage is illustrated in Figure 3 in the region between  $'0P_a0'$  and  $'0P_a1'$  by double edge dotted arrows.

The difference in the competitive benefits level  $'0C_a0'$  and  $'0C_a1'$  is the differential premium in benefits that Company A has succeeded in generating over the years. The region formed in the Figure 3 between  $'0C_a0'$  and  $'0C_a1'$  in the X-axis indicated by double edged arrows is the competitive benefits differential over Company B. This competitive benefits differential generated by a company over its competitors is the HR Premium.

The HR premium, the region between  $'0C_a1'$  –  $'0C_a0'$  marks the differential premium that Company A has created for itself over the years. It has kept up its competitive benefits at a very high level, making it hard to match. Although some elements of its monetary and non-monetary components are similar to that of Company B, it derives this distinctiveness from the unique benefits and advantages that its employees enjoy with the company. This is the outcome of years of HR strategy devising and superior execution of such strategies to create a niche in the labour market.

This niche allows a company to have a competitive advantage over the others operating in the industry, especially Company B. The HR Premium helps the company to generate a HR performance advantage which cannot be easily replicated by the competitors and it makes all the difference.

### **Benefits of HR Premium**

The knowledge of the level of HR premium of a company can help its management to know where the company stands in the labour market and how much bargaining power they have in attracting quality work force. This knowledge about a company's stand in the labour market will help them to decide on the quality of workforce that the company can succeed in attracting and retaining. Thereby helping them to draw recruitment and retention plans, which are well targeted and focused in managing turnover effectively and timing their recruitment plans with the timing of employees exit. The management focus which HR premium delivers will help the companies in allocating resources towards those aspects of management that builds the HR premium, based on quantitative judgements rather than basing it on the subjective instincts of the managers.

Apart from this, it will bring in commitment and loyalty among the workforce. When a company builds a good level of HR premium, it conveys a strong message to the employee that it is taking all steps to ensure all their expectations are satisfied better than any other company. This has a high positive effect on the

attitude of employees towards the company (Glaeser, 2000). The HR premium with a host of non-pecuniary employment characteristics builds a close bonding link between the employees and the company. Research shows companies can create a bonding link with the employee and secure high levels of commitment (Glaeser, 2000). A highly committed employee is more likely to be a high performer than a less committed employee is. There is a strong correlation between commitment and performance (Cappelli, 2000).

## **CONCLUSION**

The existence of 'HR premium' over the general competitive benefits level in the industry, at least in theory, may be the motivating factor that induces migration from one occupation to another and from one company to another. A Company, which succeeds in understanding this concept and builds strategies to generate a fair level of HR premium, may succeed in creating a HR performance advantage that cannot be very easily eroded by inducements by its competitors. This confidence will allow it to invest heavily on its knowledge resources for sustainable business operation in the new economy.

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