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SOTA 2004
Managing for Value(s) in a Commoditized World

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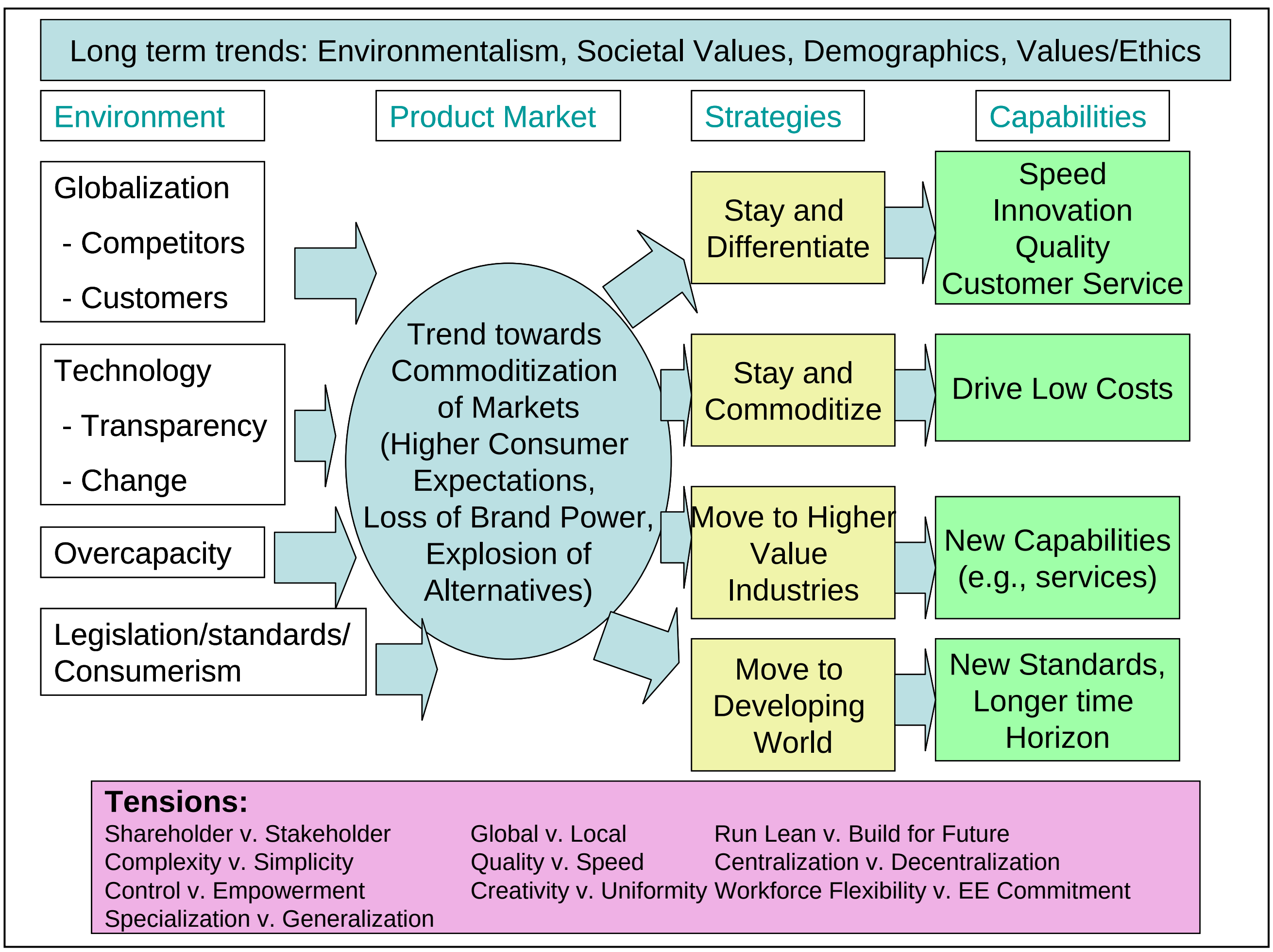
Since its inception in 1995, Human Resource Planning Society's State of the Art/Practice study has become an important way that the Society seeks to generate and disseminate information critical to effective HR strategy decision making. The study began as an effort to identify the major issues driving organizations and causing transformations in HR (Caimano, Canavan, & Hill, 1998; Ulrich & Eichinger, 1995; 1996; Wright, Dyer, & Takla, 1998). More recently, the SOTA/P has focused on drilling down more deeply to understand HR's role in critical strategic issues such as e-business (Wright and Dyer, 1999) and using HR to build a customer-focused company (Overholt and Grannell, 2002). The 2004 SOTA/P returns to the original roots, and seeks to describe the competitive landscape, and the implications of these trends for HR.

In conducting the 2004 SOTA/P, we utilized a global network of HR and line thought leaders. We created working groups in New York, London, Paris, Tokyo, and Buenos Aires in order to prevent the study from merely reflecting the realities of North America, or the US. In addition, we used a multi-stage approach where the working groups met multiple times in order to feed back information from the previous round of discussions as the basis for expanding into the next phase of discussion. Finally, we took a business driven approach to the study, with each working group's first meeting devoted entirely to discussing the issues and challenges faced by their business, with the ground rule that HR could not be discussed. The subsequent rounds of discussions focused on organizational capabilities/people issues and the required transformation of HR and its role in the organization.

We summarize the results of the 2004 around the following three challenges: Creating Value in a commoditized marketplace, the tensions inherent in addressing how to create value and for whom, and the need for balancing different values in strategic decision making.

Creating Value in a Commoditized Marketplace

Almost every study that focuses on future trends impacting organizations notes the same basic issues: Globalization, increased competition, and technological change. In our discussion we also heard issues about the increase legislation, the requirements for uniform standards, and increased consumerism. What is often not delved into deeply is the synergistic result of these forces, which is to commoditize the marketplace for products and services. Consider: Toys R' Us faces Wal-Mart; IBM faces Dell, Delta Airlines faces Southwest, Jet Blue, and ATA. Over the past few years, the low price competitors have tended to dominate every industry, making price the most significant criteria in the buying choice. Note that this does not mean that all industries have become completely commoditized, but it illustrates that just about every industry increasing faces pressure toward commoditization creating a tremendous challenge for how they will create value in a commoditized world. This is illustrated in Figure 1.



This commoditization pressure has led all competitors toward exploring all the avenues for cost reduction. For instance, the offshore outsourcing of some of the information technology services exemplifies one way in which companies have sought to reduce their costs. At the same time, the dynamics of competition remain, and firms are choosing a mix of alternative strategies for fighting this process, and we use IBM as an example to illustrate the first three.

First, companies can fight the commoditization process by differentiating their products or services in ways that command price premiums. IBM continues to provide a set of integrated information technology solutions in order to differentiate itself from competitors. Second, companies can stay in the market and commoditize. For instance, even facing low cost competition from Dell and Gateway, IBM remains in the PC business, but drives down its costs to maintain price competitiveness. Third, firms can shift to higher value industries as a way to escape the commoditized ones. IBM's purchase of PriceWaterhouseCoopers' consulting business illustrates their shifting more resources into services where the commoditization pressures have not yet emerged.

Finally, firms can move to the third world as a long term strategy. The increasing emphasis on Sustainable Development and the focus on creating Sustainable Strategies often lead companies to explore how they can create low-cost business models in developing countries. The usual expectation is not that they will make huge profits in the short term, but that only by establishing a presence now can they hope to reap profits in the long term.

The Increasing Tensions in How to Create Value and for Whom?

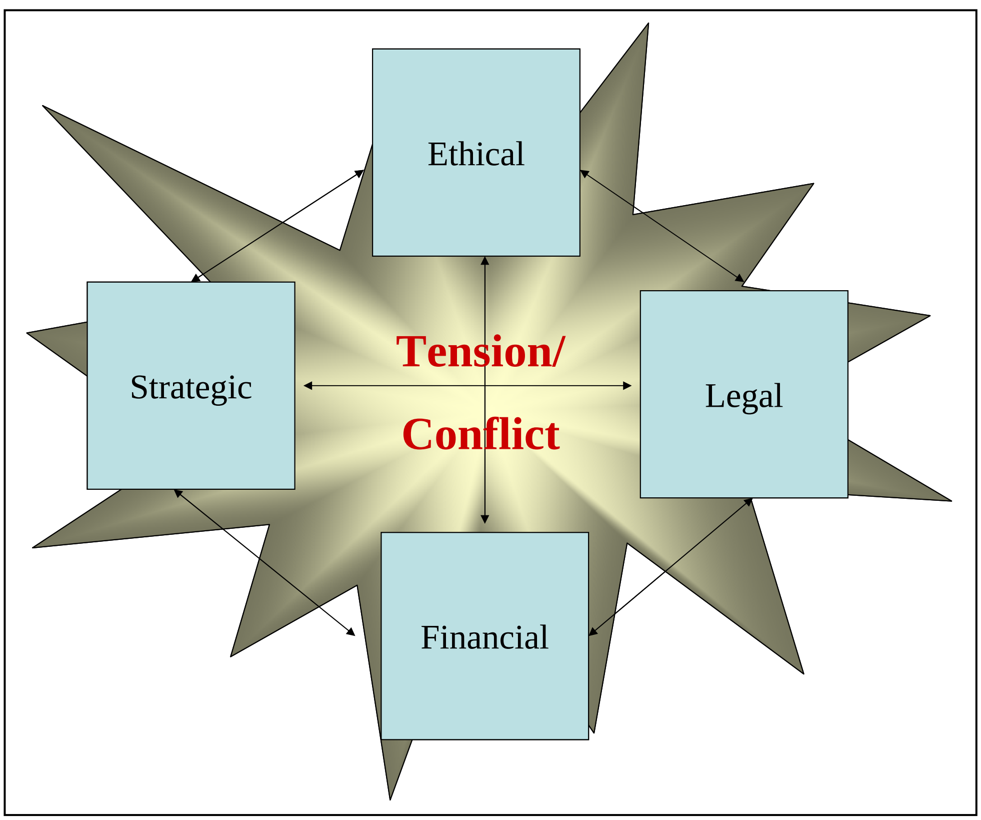
While this pressure toward commoditization increases, firms also face a number of other long term trends such as environmentalism, changing societal values, demographic changes, and an increased emphasis on values and ethics (in direct response to the global corporate scandals observed over the past few years. The intersection of these societal trends and the economic competitive realities has created a number of tensions that organizations must address. These are illustrated at the bottom of Figure 1, but due to space limitation, we will discuss only one.

What became patently obvious as we worked across the globe was that firms must address the tension between a pure shareholder orientation ("the goal of a company is only to increase shareholder wealth") and a stakeholder orientation ("organizations must answer to a number of stakeholders besides shareholders"). The former focuses on financial value creation for the shareholder, while the latter recognizes a broader definition of value and a wider scope of value recipients. The course of our study saw both a different set of perspectives, and a shift in perspectives. At the beginning of the study, the US based group clearly communicated a pure shareholder orientation that was quite distinct from that of the other groups around the world. However, by the end of the study, the US group increasingly identified issues regarding social responsibility and ethics as important ones that firms must address. On the other hand, the European participants often criticized the "US shareholder orientation" as needing to move toward a stakeholder approach, but also noted that the European business community's "stakeholder approach" could benefit by emphasizing shareholders more. This tension illustrates the kind of issue that does not lend itself to an either/or answer, but requires balancing competing interests. It also highlights the emerging recognition of the importance of values in organizational decision making.

The Need to Recognize and Balance Values in Strategic Decision Making

Finally, this year's SOTA/P revealed an increasing emphasis on understanding how value systems impact strategic decision making. While talking about values is usually limited to organizational value statements, our study noted the tendency for decisions to reveal conflicting values. For instance, in the course of our study we heard SVP's of HR frequently describing dilemmas that their organizations faced. These situations exemplified the ways in which HR executives can and should impact strategy formulation. For instance, one company had reams of data showing that the most senior sales people produced the highest customer satisfaction and sales, yet in the name of cost reduction, senior managers sought to target these individuals for workforce reductions. Another company described the need to impose higher costs on employees for health care, but refused to do so for the senior managers with their top-hat coverage. Stories such as these illustrated the different criteria that firms must address in the strategic decision making process.

From this we developed what we refer to as the SELF Model, shown in Figure 2. This model specifically recognizes that no organization decisions exist in a value vacuum. It suggests that decisions can have strategic, ethical, legal, and financial impacts, yet often only one of these criteria plays a role in decision making. For instance, in the first example above, the financial values were the driving force behind a decision that would accrue a substantial cost to the strategic capability of the organization. In the second instance, the financial criteria drive decision making with little concern for the ethical or strategic impact of the decision. We find that the SELF model, when properly applied, provides both a useful tool for HR executives to analyze the long term impact of decisions, and a platform to engage a discussion among decision makers in a non-threatening way.



Conclusion

SOTA/P 2004 highlights how the increasingly competitive marketplace causes firms to seek unique strategic approaches to creating value. The constant downward cost pressures produce a number of organizational tensions, particularly with regard to people. Given the importance of human capital to long term competitive advantage, HR executives are increasingly called to influence strategic decision making, often focusing decision makers on long term consequences of short term decisions. This requires making implicit value systems explicit in order to fully examine the impact of potential decisions and recognizing that true strategic partners are not simply order takers for the line organization. Rather, the emerging role for senior HR executives requires managing the process of strategic decision making to ensure that the right decisions get made.

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