A Funny Thing Happened on the Way to the Future: The Focus on Organizational Competitive Advantage Lost Out

BENJAMIN SCHNEIDER
Valtera Corporation

MARK G. EHRHART
San Diego State University

WILLIAM H. MACEY
Valtera Corporation

We agree with and heartily endorse Ployhart’s (2012) elegant and insightful plea for research that contributes to the psychological underpinnings of organizational competitive advantage. It is clear to us that the organizational focus in our work has been severely lacking. Thus, revealing how an individual will perform better than another in a company or how a team exceeds safety performance standards better than another in a company do NOT reveal anything about organizational competitive advantage. The rule, as Ployhart intimates, is this: When differences within a company are revealed, whether those differences are among individuals, teams, branches, or regions, we have learned nothing about organizational competitive advantage. It is only when we reveal differences between organizations that we can discuss competitive advantage.

Ployhart also makes the point that we seem to care more about competitive advantage than the research we actually do. If differences between individuals account for differences in performance, then those differences aggregate to create competitive advantage. He proposes that a focus on aggregate strategically relevant knowledge, skills, abilities, and other characteristics (KSAOs) is the way to understand competitive advantage from a human capital perspective. In what follows we present the notion that a focus on strategically relevant KSAOs is incomplete because it is also (note the emphasis on also) the policies and practices that characterize organizations’ approaches to human capital management that foster competitive advantage.

It is helpful to put our approach in a historical context, one which is reflected in our choice of title for this commentary. In a recent chapter, we (Schneider, Ehrhart, & Macey, 2011) presented a history of the study of organizational psychology as background to a history of organizational climate. In that history, we revealed that in fact the early research and writing in organizational psychology were explicitly about competitive advantage. The level of analysis of all the great organizational psychology scholars of the late 1950s and early 1960s was clearly the organization and the people in them. The goal of these scholars was to reveal why an organization was more successful than others as

Correspondence concerning this article should be addressed to Benjamin Schneider.
E-mail: bschneider@valtera.com
Address: Valtera, 1363 Caminito Floreo, Suite G, La Jolla, CA 92037
a function of the manner in which human capital was managed. Argyris (1957) argued convincingly that the few organizations in which employees were permitted to experience psychological success while working were the same organizations that were competitively superior. McGregor's (1960) *Human Side of Enterprise* had a similar genesis, focusing in on the management of the company and how different managerial cosmologies across companies resulted in more or less effective organizations; his concern was with the macro relationships between workers and management. Likert’s main thesis in his 1961 book *New Patterns of Management* (and in the 1967 update) was that a focus on individual workers as a means for understanding organizational performance was not useful. He argued repeatedly that the social issues workers confront and the way they are handled (especially through participation in decision making) is the key to understanding the foundation for organizational success from a human resources vantage point: “for many variables related to the performance of any organization, analyses reflecting the situation for groups yield clearer and more significant differences than analyses dealing with only the measurements for individuals” (Likert, 1967, p. 38).

These three early and influential scholars arguably form the very foundation for modern organizational psychology. For present purposes, their important legacy is the emphasis on the “O” part of I–O; the managerial practices and policies (“climate”) instituted in and by organizations require attention if competitive advantage is to be achieved. This begs the question: With such great early emphasis on organizational performance and competitive advantage, where did industrial–organizational (I–O) psychology lose its way to the future with us just now, thanks to writings like those of Ployhart in this issue, rejuvenating a focus on the importance of organizational and not just individual effectiveness? We see two major explanations for the lack of research on competitive advantage, or any kind of research at the organizational level of analysis, in I–O: (a) the implicit belief that hiring new employees through the use of validated selection procedures yields not only superior organizational performance but competitive advantage as well; and (b) the field is rooted in the individual differences tradition that has persisted to this day. We briefly discuss each of these in turn.

**The Implicit Belief That Hiring Superior People Will Yield Competitive Advantage**

Every personnel selection researcher and practitioner fundamentally believes that the hiring of talent with appropriate KSAOs to do specific jobs is the key to organizational success even though, as Ployhart has so clearly articulated, validated selection procedures used to hire people to do specific jobs in a company may enhance overall performance on those jobs, but this does not have anything to say about organizational competitive advantage. This implicit belief in the consequences of approaches from traditional I–O psychology has severely held back progress toward the actual study of competitive advantage, and the lack of progress has been both in academics and in practice. In the former case, it was not until researchers in human resources management showed that effective HR practices might be reflected in competitive advantage (e.g., Huselid, 1995) that we gained appreciation for how strategic human resources might actually work—and that research was not done by I–O psychologists. In the case of I–O psychology practitioners, for many years in industry we were treated as important but not when it came to understanding organizational performance and competitive advantage. This was true because the evidence simply did not exist—and for the most part still does not exist—that using validated selection procedures produces organizational differences relevant for competitive advantage.

Ployhart’s major argument is that if the KSAOs tested for measure the KSAOs strategically required by the organization,
then competitive advantage will likely follow. We agree with this point but we further believe that this is only one step on the road to competitive advantage from a human capital perspective. The other very necessary step relates back to our history of the “O” part of I–O reviewed earlier; the managerial practices and policies (“climate”) instituted in and by organizations also require attention.

It is very important that this conclusion be understood as we wish it to be understood. First, we are proposing that KSAOs required for strategic effectiveness by organizations be identified and that they be tested for when making hiring decisions in addition to testing for those KSAOs required for performance on specific jobs. The relevant competitive marketplace for an organization needs to be carefully specified in order to produce specification of the KSAOs that need assessment. Thus, as Ployhart notes, when Company A tests for the same generic KSAOs as Company B, this will not likely produce competitive advantage in the marketplace.

Second—in keeping with the emphases of Argyris, McGregor, and Likert—it is not sufficient for companies to test for KSAOs that might yield competitive advantage in their markets; they must also attend to the strategic climates in which people will work. We use the term “strategic” climate because it is not just any situation that will yield competitive advantage but it is the creation and maintenance of a strategically appropriate climate for people at work that will yield competitive advantage. Thus, just as it is important to focus on strategically relevant KSAOs to achieve competitive advantage, situations must also be strategically designed in ways that yield not only competitive advantage but that are difficult to imitate by others. For example, the research on organizational climate clearly shows that companies with superior strategically relevant service climates achieve competitive advantage by having both more satisfied customers and superior financial performance (Schneider, Macey, Lee, & Young, 2009).

Why a strategic climate results in competitive advantage is clear by looking at the four characteristics of inimitability summarized by Ployhart. First and probably foremost is the issue of resource interconnectedness. A strategic climate is built through the combination of multiple actions (multiple policies, practices, and procedures) that create a gestalt for employees that a particular strategy is valued by and a priority for management. A single practice will not do this; it is only when a host of practices are bundled together that a strategic climate results. With regard to social complexity, part of the value of a strategic climate is that it yields a common perspective for employees and acts as a kind of glue in the coordination of their common goals. Thus, Mayer, Ehrhart, and Schneider (2009) found service climate was positively related to customer satisfaction most significantly when employee interdependence was high. The third element, causal ambiguity is relevant because the tactics for the creation of a strategic climate are ambiguous and difficult to identify precisely because it is a bundle of multiple policies, practices, and procedures that create the gestalt that is climate, not a single cause. The fourth element is path dependency, and it suggests that a strategic climate cannot be built overnight. In fact, when organizations do try to take shortcuts in building a strategic climate, they are often met with cynicism and doubt from employees. It takes time to build a strategic climate, with individual practices building on each other, all communicating a common message about the organization’s strategic goal or goals.

Third, we are proposing joint main effects for aggregate KSAOs and the situation on organizational performance, not an interaction. For example, as shown in Figure 1, a selection predictor of service quality performance may have the same validity in Company A as in Company B and both companies may use the same cut-offs for hiring, but Company A achieves a higher level of average service quality performance than Company B. How can this be? It can be because Company A has policies and
Figure 1. How climate may influence corporate performance differences.


practices (i.e., service climate) that yield increased levels of service behavior for those hired; competitive advantage follows (Schneider et al., 2009). Note that this means there is a positive main effect for organizational policies and practices on the aggregate levels of service behavior in Company A compared to Company B. And, as the intercepts on the performance axis are where the differences lie, there is no moderator involved.

A misreading of what Lewin said has resulted in a myth that the way person and situational attributes combine is through a quantitative interaction. What Lewin (1935, p. 73) said was this: “From a certain total constellation—comprising a situation and an individual—there results a certain behavior, i.e., \[ B = f(P, E) \].” The form of the combination is not specified and can be anything (Pervin, 1989), and research shows it is not likely an interaction. This conclusion of a linear combination of person and situation is described by Chernyshenko, Stark, and Drasgow (2011, p. 117) in their paper on individual differences this way: “Interestingly, the person-by-situation interaction has been studied far less often and frequently accounts for much less variance than the main effects of people and situations.” Ployhart and Schneider (2012) made the same argument, and we conclude that research on the ways the assessment of strategically relevant KSAOs and situations designed for competitive advantage relate to organizational performance differences should be characterized by the assumption that they combine as main effects. Research on this conclusion is sorely needed.

Individual Differences Are the Very Foundation of I–O Psychology

Viteles (1932, p. 29) in his remarkably comprehensive Industrial Psychology put it this way: “Industrial psychology is based upon a study of individual differences—of human variability—the importance of which as an objective of scientific inquiry seems to have first been definitely recognized and stressed by Sir Francis Galton.” Later, he again stresses the importance of individual differences: “The science of industrial psychology is largely a study of the ways in which individuals differ, and knowledge of the general principles of individual differences is essential for the comprehension of its diverse applications and findings (1932, p. 58).”

It is important to follow some of the implications of this emphasis on individual differences to see the subtle and not-so-subtle ways in which it has influenced the individual level of analysis on which we have focused. To cite just a few examples, consider the following:

- Psychologists trained in the individual differences tradition, when confronted with theories such as those by Argyris, McGregor, and Likert, developed attitude and opinion surveys to test hypotheses derived from them and then, with some notable exceptions at the University of Michigan, analyzed their results all at the individual level of analysis.
- When Smith (1977) studied employee attitudes and related those at the
group level of analysis to understand absenteeism, he apologized for not having individual absenteeism data to use as the criterion.

- Most of the early “organizational” climate research of the late 1960s and early 1970s was conducted at the individual level of analysis.

- Early research on group effects were criticized by I–O psychologists for lacking rigor (Dunnette & Campbell, 1968), and early climate research was criticized for failure to show 100% agreement on the data being aggregated to produce unit-level scores (Guion, 1973). Note that the criticisms came from established I–O psychologists intimately associated with the study of individual differences and personnel selection whose opinions were highly valued.

- And the critiques continue. For example, Weiss and Rupp (2011) say that studies of group and organizational levels of performance through a focus on aggregates of people (what they call “collective purpose”) are unappealing and perhaps not really psychological enough. They propose that we study the whole worker, that we focus on “selves” and not aggregates, and that what we need is to have a fuller focus on the individual at work.

In summary, we agree with Ployhart that the study of competitive advantage is essential. We have attempted to add to his argument not detract from it. In economics, the principle of information asymmetry says that those with increased levels of information compared to competitors create asymmetries that ultimately yield advantage (typically in the form of an economic transaction). More generally, using Ployhart’s focus on KSAOs, the information advantage derives from knowing more about the KSAOs of your own workforce than what your competitors can know of yours or theirs, thus creating the possibility for comparatively greater returns from investment in human capital or the placement of that human capital. When applied to climate, it says that the package or bundle of tactics that create a strategic climate is difficult to imitate and thus provides competitive advantage because competing firms do not have enough information to understand how the climate was created or how it works—they just know that it does! Our logic says that the creation of KSAO and climate asymmetries would go a long way to produce competitive advantage through a focus on people and the environments in which they work.

References


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