

How HR can create competitive advantage for the firm

Applying the principles of resource-based theory

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The problem with competitive advantage theory

Accepted wisdom, and popular models that explain how firms create sustained competitive advantage (SCA), focus on factors external to the firm. It is all about customers, competitors, suppliers and products we are told. It is about price setting and market segmentation and economies of scale and brand identity and so on. Porter's ubiquitous "Five Forces Model of Competition", the favorite of business strategy professors everywhere, is typical. It attempts to explain competitive business strategy solely through the lens of the firm's external operating environment. Profitability is determined by how well the firm manages and navigates the external forces. Porter's work is highly celebrated; but is it right?

The popular models of competitive strategy seem to reduce employees to invisible units of production – an inconsequential, undifferentiated mass. Even criticisms of Porter's model do not appear to notice that he forgot about the workers. The idea that a firm's internal resources, especially its employees, could play a part in generating competitive advantage is not considered. This is despite a great deal of scholarly research demonstrating that employees do not just contribute to competitive advantage; they can themselves be a direct source of competitive advantage.

The resource-based theory of competitive advantage

The resource-based theory (RBT) of competitive advantage argues that a firm's internal resources can be a source of SCA for the firm, especially the firm's human resources. RBT is an "inside-out" approach to competitive strategy formulation: first assess our internal capabilities and then see how best to apply those to the challenges and opportunities outside. Most other models of competitive strategy are "outside-in".

To enable employees to become a direct source of competitive advantage, it is first necessary to affirm several principles that underscore the link between a firm's human resources and its business strategy. According to *Karami et al. (2004)*, there are four principles that link the two:

1. the firm must seek to ensure that it has capable and committed employees;
2. the firm must commit to the strategic importance of human resources to the success of the business;
3. human resource activities must be managed by specialists; and
4. human resource management is integrated into business strategy.

These four principles must be enacted first. Once the firm has actively put the four principles into practice, the foundation has been laid.

Now the firm can develop the resource (human or otherwise). [Wright and McMahan \(1992\)](#) identified that for a firm's internal resources to provide SCA, four criteria must be attributable to the given resource:

1. the resource must add value to the firm;
2. the resource must be unique or rare among current and potential competitors;
3. the resource must be impossible to imitate perfectly; and
4. the resource cannot be substituted with another similarly functioning resource by competitors.

This is commonly expressed in the RBT literature as VRIN/O (valuable; rare; inimitable; non-substitutable with the organization in place to apply them). Having "the organization in place" includes having highly competent managers in the organization. It also means more generally that the organization's systems, procedures, policies, structure and other internal elements must be organized and aligned in ways which support internal resources being able to be used strategically. For example; bureaucratic "red tape" or poorly functioning/out-dated equipment or a rotten corporate culture would all be examples of not having the organization in place to allow employees to become a source of SCA. Firm's need to diagnose "barriers and blockages" that exist in the firm and are likely to prevent strategic deployment of employee capabilities. Once diagnosed these barriers and blockages need to be minimized or eradicated.

Applying resource-based theory in practice

The first challenge, before RBT can be put to work, is to convince the firm's senior leadership that HR must be given a seat at the top table. HR must be allowed to be a strategic business partner equal to all other functions of the business. HR strategy must be fully integrated with overall business strategy, and line managers must take on responsibility for the daily, transactional managerial tasks that too often fall to HR. For example, resolving conflict within the team, giving performance feedback or explaining basic personnel policies to team members.

Once HR is allowed and able to work on strategic initiatives aligned with the business strategy, then employees can be developed, led and deployed in ways which create real competitive advantage. Below are the five criteria employees need to possess so that they may become a source of SCA for the firm and the ways in which HR can make it happen. [Table I](#) provides a summary of this.

Table I How HR creates SCA through employees	
<i>SCA criteria for human capital</i>	<i>The role of HR</i>
The employee must add value to the firm	Recruitment, selection, on-boarding, career development, coaching and mentoring, strategic KPIs, challenging jobs, participative management, self- directed work teams, performance management
The employee must be unique or rare among current/potential competitors	Specialized development, industry certifications, in-house CBT; volunteering
The employee must be impossible to copy exactly	Align employee behaviors, actions and attitudes with vision, mission and values statements. Harness corporate culture. Use job sculpting and empowerment initiatives
The employee must not be easily substitutable by other firms	Loyalty and experience through talent management and retention. W/L balance; further education; industry conferences and professional associations; encourage networking and job rotations
The organization must be in place to maximize human capital competencies	HR policies; develop quality managers; a culture of reward and recognition; incentives; job design; promotion; clear career paths with options

The employee must add value to the firm

Focus on strategic recruitment, selection and on-boarding that seeks employees aligned with the firm's core belief system and values. Get people career-focused from the off and set up coaching and especially mentoring initiatives for rising stars. KPIs that cascade and align with business strategy help employees make a real difference. Design challenging jobs, push decision-making down the hierarchy and get people involved in self-directed work teams and participative management. Most importantly; have a quality performance management system and set employees challenging goals as part of this.

The employee must be unique or rare among current/potential competitors

Training and development that is specialized, flexible to individual needs and unique to the firm. Industry certifications or an in-house competency-based training program focused on knowing the business well. Volunteer programs develop the individual's unique character. Every person is unique anyway; this inherent uniqueness must be harnessed and brought to bear through each person's work.

The employee must be impossible to copy exactly

The firm's vision, mission and values statements along with the corporate culture combine to make the firm unique. Leverage these when writing position descriptions, hiring and developing employees and any other opportunity to shape employees in the unique image of the company. Job sculpting and empowerment initiatives can further help employees do their jobs in the own ways with their unique blend of skills and personal passions.

The employee must not be easily substitutable by other firms

There is no substitute or "short-cut" for experience. No training program can substitute 5, 10 or 20 years on the job. Therefore, retain your best employees. Every year's experience makes them ever harder to substitute by competitors. Build loyalty through initiatives such as talent management, retention programs, family friendly policies including fair work-life balance policies, part-fund further education to keep good employees engaged and build deeper interest in the job by sending employees to industry conferences and professional association events. Facilitate networking and job rotations; both make employees harder to substitute.

Have the organization in place to maximize human capital competencies

Develop HR policies that focus on achieving results and reducing bureaucracy. Hire and develop high-quality managers. Use compensation and benefits to incentivize and reward what matters. Use recognition schemes to praise the best and encourage the rest. Job design should facilitate achieving results not complying with unnecessary precedents from years ago. Fast-track and transparent promotion procedures and clear career paths with options all combine to create a dynamic work environment that encourages the best in people.

References

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