

Strategic Management Theories and the Linkage with Firm Competitive Advantage from the Human Resource-Based View

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Abstract

The central tenet of this paper is to pioneer a review of strategic human resource management, overview of strategic management theories and to show its correlation with the human resource-based view (HRVB) of the organizational competitive advantage. A review of relevant literature on the topic was conducted and it was identified that there is some meaningful relationship amidst strategic human resource management, strategic management theories and organizational competitive advantage from the human resource-based view perspective. This identified linkage brought about the findings that the human resource-based view of firm's competitive advantage being one of the major components of strategic management theories is applicable to explain firm's performance, effectiveness and growth. The human resource-based view provides useful guideline to examine firm's competitive advantage as dependent to the quality of its people (human capital, talents, employee capabilities and skills, knowledge

and expertise, and so on) towards attaining and maintaining competitive advantage. No doubt, products can be copied and reproduced, strategy can be benchmarked, edge in technological advantage is transitory but the quality of a firm's workforce is totally an extraordinary resources.

Keywords: Human resource-based view (HRBV), organizational people and competitive advantage.

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1.0 Introduction

The attainment of organizational competitive advantage position and the persistent enhancement of sustainable organizational performance is the central focus of many organizations that strive to supersede and outweigh their competitors. The term competitive advantage is the capability gained by a firm through its unique attributes and resources to perform at a higher level than firms in the same industry. It could be described as the strategic advantage that a firm has over its competing firms within its competitive industry. Achieving competitive advantage fortifies and positions a business better within the business environment [1].

Competitive advantage occurs when an organization's value creation outperforms that of other competitors. These value or attribute includes organizational structure, top management style, inexpensive power and production cost, highly trained and skilled human resources, levels of diversification, new information and innovative technologies, and others [2], [3].

A firm will attain a competitive advantage status when it is implementing a value creating strategy that is not concurrently being employed by any other current or future competitors. The strategies being successfully implemented will boost the firm to enhanced performance by facilitating the firm with competitive advantage to outperform other rivals. To gain and sustain competitive advantage, a business strategy of an organization should be able to manipulate the various resources over which it has direct control and these resources have the capability to generate competitive advantage in form of improved performance outcomes, value creation, superiority in production, sustainability and business growth [4, 5, 6].

Competitive advantage has been an interesting research area in management yet the underlying epistemology in management and business both in theory and practice is still debatable. Therefore, this paper though from the human resource-based view perspective would attend to show some linkage among competitive advantage, strategic management theories and strategic human resource management.

2.0 Strategic Management theories (An overview)

Strategic Management has been identified in many literatures as a critical management tool which organizations utilize to gain competitive advantage over their competitors. Strategic management is the process and approach that involves the combination of strategy formulation, implementation and evaluation of specifying a firm's objectives, developing its policies and plans to achieve and attain these objectives, and allocating resources so as to implement the set policies and plans. In other words, strategic management can be seen as the conceptions and actions that define what the organization does, in what field it acts, who its stakeholders are, for whom it operates, who are its competitors and where it is located, why and how it seeks to deliver positive results [6, 7, 8].

Strategic management in organizations implies a continuous inquiry into, and directing of the role and functioning of the organization concerned, something which can only be pursued effectively on the basis of an understanding of the organization's contexts and through a multi-level dialogue with its constituents. To ensure positive results, the organization in question has to be managed according to the premises and principles that are

characteristic of its nature and that are based on its contextual roots [6, 7].

Reference [7] noted that strategic management has been redefined to include an understanding of cognitive, social, cultural and economic features. Hence, the theoretical focus has evolved from planning and adaptation to embrace a greater emphasis on the organizational resource situation and other contextually dependent components. Strategic management may also include human-based perspectives on the strategic capacity of an organization and self improvement. Therefore, it would not be wrong to say that organizations that strive to sustain its competitive advantage position, should constantly reposition its unique human resources and other resources to gain improved performance.

Strategic management theories mainly emanate from systems approach, contingency approach and information technology approach [6]. The profit-maximizing and competition-based theory, the survival-based theory, the resource-

based theory, the agency theory, the contingency theory and the human resource-based theory are the main applicable strategic management theories observed in management literature. As noted earlier, this paper concentrates on the human resource-based theory as a perceptive option for competitive advantage. Figure 1 shows the main types of strategic management theories.

A firm's resources can be divided into tangible (financial, technological, physical and human) and intangible (brand-name, reputation, skills and know-how) resources. To attain the status of a distinctive competency, an organization's resources must be valuable and unique, and not easily imitated. By capabilities, we simply refer to the collective skills possessed by the individual employees who effectively coordinate the organizational resources to achieve set goals. Strategic management theorists made it clear that the distinction between resources and capabilities is important to appreciate what generates a distinctive competency and competitive advantage.

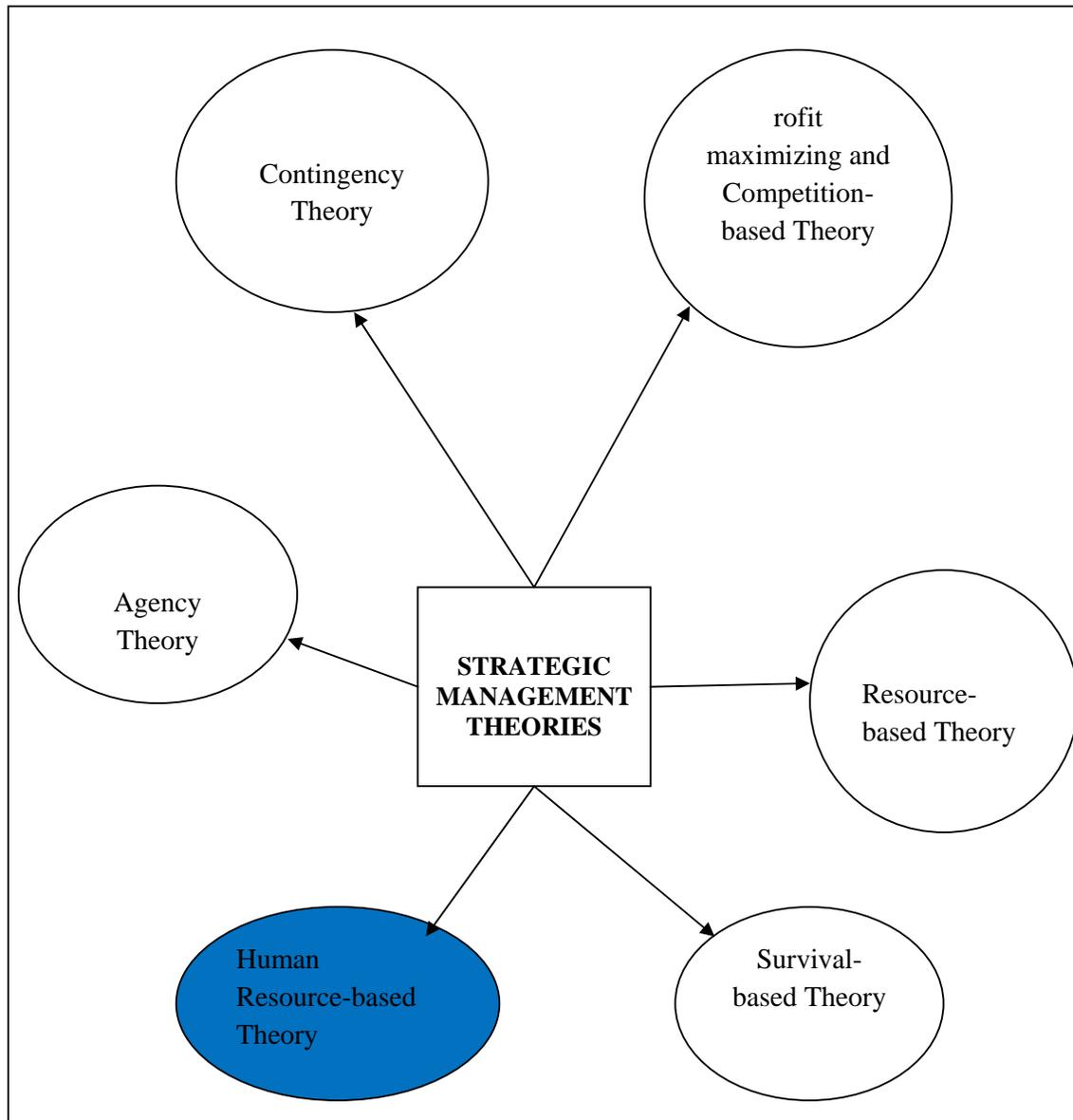


Figure 1: Strategic Management Theories (adapted from [6, 9])

The **profit-maximizing and competition-based theory** is based on the conception that an organization's major objective is to maximize long term profit and to develop sustainable competitive advantage over competitive rivals in the external market environment. The foundation of this theory was conceived from the industrial-organization (I/O) perspective [6] which sees the organization external market positioning as the critical success factor for attaining and sustaining competitive advantage. The **resource-**

based theory systems from the principle that the source of organizational competitive advantage depends on the unique resources and capabilities that a firm possesses [7] and not mainly their positioning in the external environment or simply evaluating environmental opportunities and threats in conducting business. The **survival-based theory** is based on the view that organizations need to continuously adapt to its competitive environment in order to survive.

The **contingency theory** centres on the notion that there is no single best approach to manage organizations. In other words, organizations should not be managed by one-size-fit-all approach but should work out unique managerial strategies depending on the particular condition or situation they are facing. Furthermore, **the agency theory** stresses the essential important of mutual and excellent relationship between the shareholders and management of the organization in ensuring the organizational business success[6].

Finally, the **human resource-based theory**, which emphasizes the importance of the human element in the strategy development and business success of organizations, is the main focus of this paper. Most importantly, the **Human resource-based theory** which is the major theory used to support this work emanates from the principle that the source of firms competitive advantage lies in its highly skilled and efficiency workforce which is not easily copied by competitors. **The human resource-based theory** of the firm's competitive advantage in particular provides the underlying theoretical foundation for this paper and it is also the fundamental basis of the ensuing relationships amidst strategic management theories, strategic human resource management and the linkage with firm

competitive advantage. This is because this paper focuses especially on the human capital aspect of firms as their unique resource and attribute which the firms have to use in positioning its competitive advantage. Amid the increasing awareness that the greatest asset of any organization is its people, many organizations are now looking to their human resource departments to set up strategic schema for the enhancement of the level of their employee retention [10]. Currently, employers are investing on their employees because they now perceive them as their greatest asset [11]. It is quite obvious that products can be easily benchmarked and copied, a technological advantage can be transitory, additional facilities can be built but the excellence of an organization's workplace, its commitment and passion is virtually not possible to copy. Thus organizational people can be seen as a vital resource that fuels or drives the sustainable competitive advantage [11].

Figure 2 shows the five criteria used to determine whether or not human resources are the extraordinary resource which is bedrock of sustainable organizational competitive advantage. Hence, this paper positions organizational people as its greatest resource.

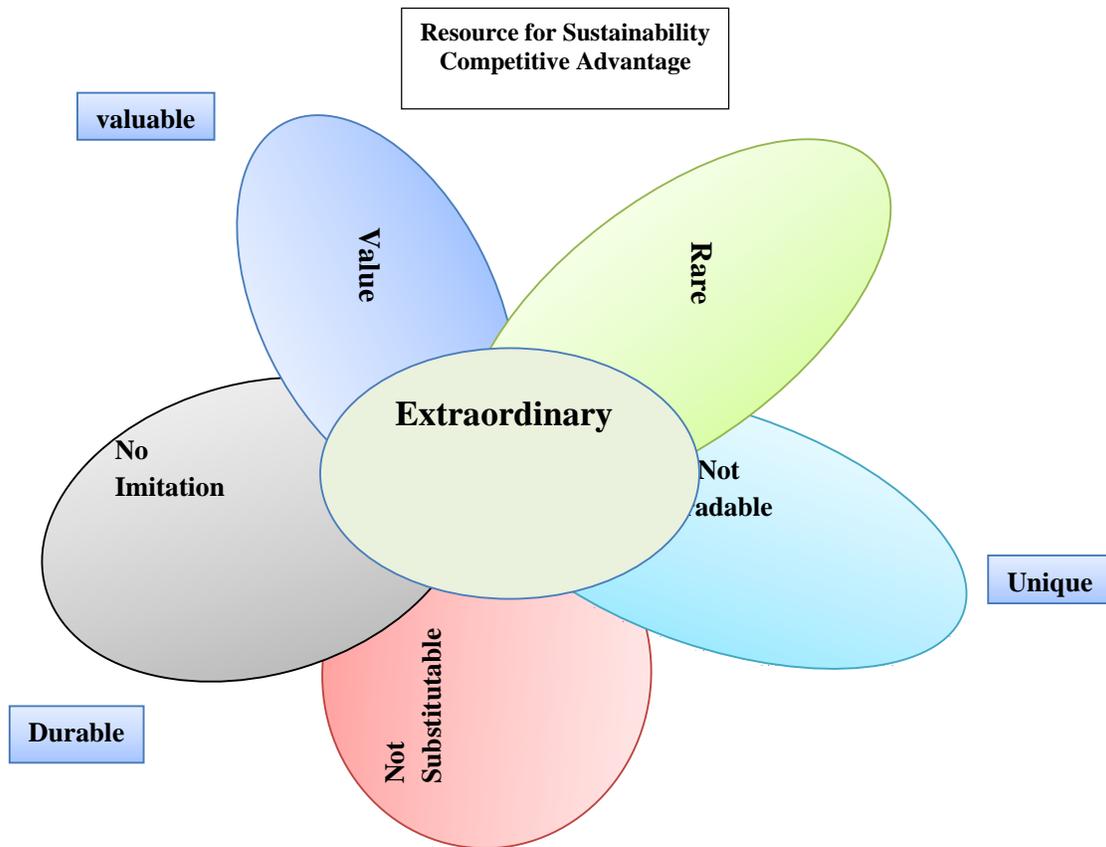


Figure 2: Resources for Sustainable Competitive Advantage [5:p.174]

3.0 Strategic Human Resource Management

Human resource management (HRM) and organizational behavior (OB) theories recognize the facts that the applying the psychological aspect of human nature to manage organizations is an essential practice which enhances organizational growth and performance [12, 13]. Human resource approach lay much emphasizes on the need to manage organizational people by understanding their psychological needs and contrasts at work environment thereby enforcing and delivering improved strategies to motivate, reward, compensate, manage, engage, train and retain organizational people to drive strategic and competitive advantage[13, 14, 15, 16].

Strategic human resource management (SHRM) could be described as the effective application of the organization's human resources to accomplish the organization's overall strategies[17]. It is quiet essential to establish alinkagebetween the HR functionsand all HR activities to organization's strategic objectives[18].

The SHRM literature is deeply rooted in 'manpower' planning, but it was made popular by the works of prominent management gurus like [19, 20], who affirmed the significance of the effective management of organizational people as a source of competitive advantage. This ideology encouraged researchers in the academia like [14, 15, 21, 22] to develop frameworks stressing on the strategic role

of the HR functions and affixing the prefix 'strategic' to the term 'human resource management'. The keen interest among academic researchers and HR practitioners in linking the strategy concept to HRM can be elucidated from both the 'constituency-based' and the 'rational choice' perspectives. From a 'constituency-based' perspective, it is argued that HR academics and HR practitioners have embraced SHRM as a means of securing greater respect for HRM as a field of study and, in the case of HR managers, of appearing more 'strategic', thereby enhancing their status within organizations [13, 16, 18, 23].

There is a managerial logic in focusing concern on people's skills and intellectual assets to offer a major competitive advantage when technological superiority, even once attained, may be quickly eroded [15, 24]. This is why this paper lays greater concern to link strategic human resource management to competitive advantage via the human resource-based view.

4.0 Competitive advantage- The Human Resource-Based perspective

Global organizations are no longer based on comparative advantage, instead the clamour of competitive advantage is now indeed the central tenet of management literature. Comparative advantage allows firms to concentrate and specialize on the production of a single primary product which it has advantage over other organizations but this could trap the firm in low-wage status due to terms of trade or presence of strong rivalry. On the other

hand, competitive advantage allows firms to develop combined attributes such as highly skilled and trained personnel human resource, new technologies and mechanisms etcetera that allows it to outperform other competitors [3, 6, 25, 26, 27, 28, 29]. This notion is perhaps why [30] suggested that competitive advantage is the basis for superior performance. According to him, understanding the competitive advantage anatomy is of crucial importance to top management who seek to ultimately champion their organization's long term relevance, success and survival. [30] went further to provide a simple but coherent framework which is popularly known as SELECT- namely: substance, expression, locale, effect, cause and time-span (see to Figure 3) to help managers and practitioners examine and utilize the different facets of the competitive advantage anatomy [6].

The human resource-based view therefore suggests that for a successful implementation of strategic management, the quality, skills, expertise and knowledge of its human capital which is valuable, difficult to copy, and extraordinary should be the fundamental driver of its high performance and competitive advantage position. This idea is in consonant with the indicators of sustainable competitive advantage which is shown in Figure 2. In this article, an organization is viewed to be competitive in this era of knowledge economy when the organization is able to harness and implement value creating strategies to manage the distinctive knowledge embedded in its organizational people to achieve sustainable organizational business success more than its competitors in the market environment

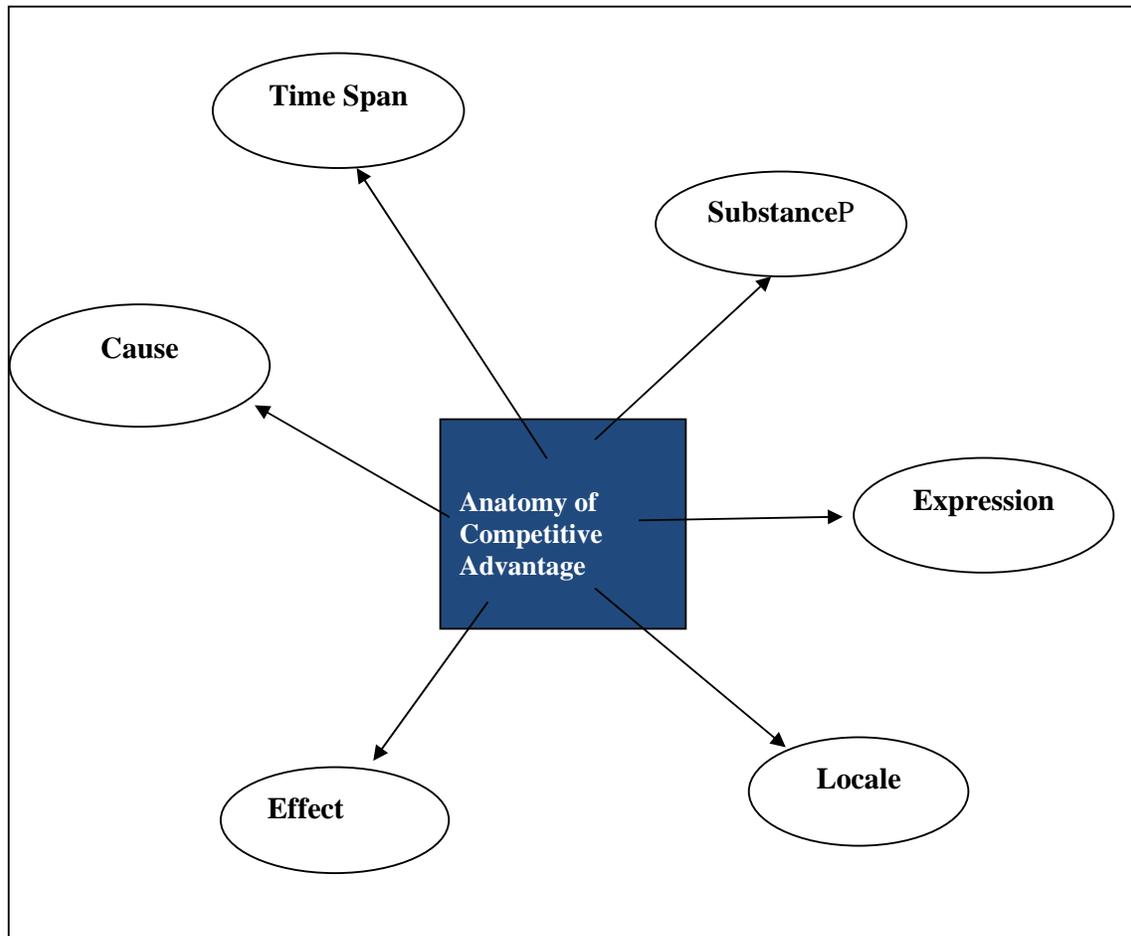


Figure 3: Anatomy of Competitive Advantage [6, 30]

According to the argument put forward by [3] and [31], there is no generally well-accepted definition of competitive advantage. We therefore agree and posit that the findings of many researchers had help us conclude that human resource-based view is essential for any organization who seek to attain and sustain competitiveness. First of such findings is the study of [32] on training and competitive advantage, which we viewed from a human resource-based perspective. According to their findings, training is an essential organization tool which could be used to meet customers demand on time. Also, [33]'s study on knowledge management and competitive advantage could be viewed as a human resource-based strategy which shows that the management of organizational knowledge

in knowledge intensive firms is essential for the attainment of competitive advantage. Furthermore, [34] position that creativity and innovation, competitiveness, co-operation, and co-option are a determinant of competitive advantage is a human resource-based view, because creativity, innovation and co-operation are championed by organizational people. Supporting the point, [35] suggested that technology transfer can be crucial foundation for competitive advantage. This notion is also a human resource-based view, as it is clear that technology transfer is made viable by people who are adept with information technology skills. Finally, the human resource-based view had undeniably offered an opportunity for organizations to plan and execute its

strategic delivery via the utilization of its organizational people.

5.0 Conclusion

Basically, the resource-based view of the firm (RBV) is more popular in literature than other management theories of which the human resource-based view is one of them. The resource-based view posits that any organization which possesses certain key and unique resources has the answer to unlock competitive advantage [36]. This view is similar to that of the strategic human resource management perspective which sees organizational talents as a unique resource which firms can effectively employ to gain sustainable advantage and performance over its competitors. Management and strategic management theories are essentially channeled to suite the SWOT (strength, weakness, opportunity and weakness) needs of organizations. Therefore there is need to examine the relationship amidst strategic management theories, strategic

human resource management and competitive advantage; although the latter is a relative term and could be viewed from diverse perspectives. No doubt, examining the firm's sustainable competitive advantage from the human resource-based is very important as it provides conceptual underpinnings to help business organizations to enhance their performance and achieve competitiveness through the utilization of their resources, capabilities, knowledge, and expertise embedded in its people. This paper contributes to knowledge as one of the pioneering works to provide support that human resource-based view of competitive advantage helps organization examine the relative importance of its greatest asset (its highly skilled human resources) which should be complimented with other resources to enhance its performance towards the attainment of a competitive advantage.

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