



SHRM & ER: The Resource-Based View

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Key Learning Outcomes

At the end of this chapter, you should be able to:

- *Define the terms competencies, capabilities and sustained competitive advantage*
- *Define the key elements of the VRIO framework*
- *Analyse how resources can be the basis for sustained competitive advantage*
- *Evaluate the role of SHRM practices in applying VRIO*

Introduction

The earlier chapters focused on an ‘outside-in’ view of strategy as applied to SHRM & ER. In some ways this approach brings balance to the literature on strategic management, which in the early stages of its development had an extensive reliance on rational, outside-in views of strategy. Therefore by including an inside-out approach to strategic analysis, an alternate and exciting avenue of investigation and analysis allows us to understand how a firm’s internal endowments can be leveraged for sustained competitive advantage. Labelled as the resource-based view (RBV) of a firm, this approach to managing people has its foundations in Penrose’s (1959) work. Penrose described a firm as an administrative structure and collection resources that are put to productive use for achieving an organisation’s production goals. Through their subjective interpretation of the firm’s strategic mileu, senior management team decides the nature of (heterogeneous) resources they need to

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develop for achieving sustained competitive advantage. Penrose further argued that it is *how* a firm implements and organizes these bundles of resources and capabilities that forms the basis of an organisation's competitive advantage, rather than relying on possessing value creating resources and capabilities. The focus on resources and capabilities has also been popularised by the work of Prahalad and Hamel (1990). This chapter examines the resources and organisational capabilities that matter and how firms ought to organize resources for achieving sustained competitive advantage.

Managers are affected by the limits of their rationality and the challenges posed by asymmetrical market information about the nature and extent of competition. It is through their subjective and partial interpretations that managers make choices and take decisions about how they may be able to remain competitive in a market. Firms that are successful achieve competitive parity or have a clear competitive advantage over their competitors. When they are able to do so over sustained periods of time, they are said to have achieved sustained competitive advantage (SCA). The key focus of the RBV is to create SCA through investing in and organising their resources and capabilities. These resources can be tangible (e.g. physical and financial) or intangible (organisational, patents and skilled human resources). In the context of managing people, we are most interested in how human resources management policy choices and organisational strategies help in achieving SCA.

Resource-Based View of the Firm

The RBV, following Penrose's seminal work in late 1950s regained momentum in 1980s when Wernerfelt (1984), Barney (1991) and Barney, Ketchen and Wright (2011) developed the idea further and applied it to the field of strategy. The RBV's current conceptualisation proposes a framework for analysing how firms may achieve sustained competitive advantage. Using the VRIO (value, rarity, inimitability, and organisation) framework proposed by Barney and Hesterly (2010), managers and researchers must answer following four questions about a resource or capability before they can determine the competitive benefits such resources or capabilities may offer: the question of value, rarity, inimitability and organisation of resources to an organisation's productive use (Barney 1991; Barney and Hesterly 2010).

Illustrations and Skills Sandpit

Applying the VRIO Framework in Practice

Analysing each element of framework, examples from practice are presented here for some clarity of its application. With regards to the first question on focusing on *value* (V) adding resources, Barney and Hesterly (2010) suggest managers need to ask whether resources in question help overcome threats or exploit an opportunity?; does it enhance a firms competitive position in the market? By answering questions

whether a resource is valuable one can proceed to examine the subsequent questions of rarity and inimitability. Are the resources controlled by a small group of competing firms. Consider a range of resources that are rare. For example, owning **real estate near Sydney Opera House** is an example of how a physical resource will continue to be valuable and deliver rents on a sustained basis. Such a resource is also rare and cannot be substituted in full. Similarly, take the example of an intangible resource, ESPN's "**X-games**" sport channel, is rare, at least temporally till other channels develop alternate media to compete in its position (Barney and Hesterly 2010). Even if other channels want to imitate (I) this channel, they might find it extremely hard to do so in a way that ESPN does. Barney and Hesterly (2010) cite the unsuccessful example of NBC with Gravity games, which wasn't as successful as ESPN. From my research of firms operating in the Indian IT industry, there are several examples of product development firms and how their resources have created barriers that are difficult to imitate. For example, at a large US MNC specialising in embedded chips and microprocessor design firm, this MNC requested several customisation requests for its People Management ERP (enterprise resource planning) software module to the software company, such that any competitor wishing to copy it would render it an extremely expensive exercise. Further, the software may still not be fully transferable to the firm wishing to copy and adopt that software application.

Even though these seminal works have had a significant impact in shaping the inside-out view of strategy, they are not free from its detractors. For example, Kor and Mahoney (2004) offer a rejoinder to Rugman and Verbeke (2002) who underestimated the contributions made by Penrose's original work from the late 1950s. They argue that Penrose offered enough clarity of how this approach can be a source of competitive advantage to firms. Penrose, for example, noted the following in relation to creating value: "There is a close relation between the various kinds of resources with which a firm works and the development of the ideas, experience, and knowledge of its managers and entrepreneurs, and we have seen how changing experience and knowledge affect not only the productive services available from resources, but also 'demand' as seen by the firm. Unused productive services are, for the enterprising firm, at the same time a challenge to innovate, an incentive to expand, and a source of competitive advantage. They facilitate the introduction of new combinations of resources – innovation – within the firm (Penrose 1959, p. 85; emphasis added)."

Additional considerations of whether a resource hard to imitate or copy by competitors is also a critical consideration? Penrose argued that not only it is important for firms to acquire resources that are valuable but also invest in maintaining them so they remain relevant over a period of time. Penrose stated in this regard (1959: 136–7) "In entering any new field, a firm must consider not only the rate of return it might expect on its new investment but also whether or not its resources are likely to be sufficient for the maintenance of the rate of investment that will be required to keep up with competitors' innovations and expansion in its existing fields as well as in the new one. Even when a firm enters a new field armed with a revolutionary

innovation and is able to ward off competition with patent protection or other restrictive devices, it must expect that in time it will be overtaken if it fails to continue to develop its advantage.” In this regard, imperfect inimitability can be achieved if the firms without such resource face considerable disadvantage in acquiring or developing it. This can be achieved by developing barriers to imitation through aspects such as path dependence or unique historical conditions, causal ambiguity, social complexity and protection via patents (Barney 1991; Barney and Hesterly 2010). In relation to the above, Penrose argued that ‘the services that resources will yield depend on the capacities of the men using them, but the development of the capacities of men is partly shaped by the resources men deal with. The two together create the special productive opportunity of a particular firm’ (pp. 78–9).

Finally, the resource in question should be organised in such a way that it cannot be easily copied or transferred to other organisations. Does the resource have context ‘stickiness’? It depends on how a firm’s organisation structure and design prevents imitation or creates barriers for it. Additionally, the intangible managerial and HR practices, management values and philosophy is considered important in the organisation of such resources. Finally, the extent to which a firm invests in the development of higher order capabilities (Barney 1991; Barney and Hesterly 2010) also ensures the resource to remain a source of SCA. Penrose maintained the importance of tacit and firm-specific knowledge that managers in an organisation would possess. Such knowledge along with collective shared experiences of other managers is extremely valuable. As highlighted by Penrose (1959: 46), “Existing managerial personnel provide services that cannot be provided by personnel newly hired from outside the firm, not only because they make up the administrative organization which cannot be expanded except by their own actions, but also because the experience they gain from working within the firm and with each other enables them to provide services that are uniquely valuable for the operations of the particular group with which they are associated.”

Critical Reflections

Even though the RBV has remained a popular approach within SHRM and strategic management literature, Priem and Butler (2001) identify several difficulties in the RBV, most of which share common concerns about the weak operationalisation of its somewhat abstract constructs. The authors even challenge whether RBV is a theory? This is especially the case as the empirical evidence is often hard to collate on the VRIO elements of the framework. Second, the independent (Value and Rarity) and dependent (SCA) variables are defined in terms of value, which creates problems in assessing the logic of this approach empirically. As with any approach on assessing the *performance* of a system, one has to always deal with the performance black box, as there often are a number of internal and external factors affecting it. There is also some critique levelled at this approach

Table 1 The VRIO framework and competitive advantage

Valuable?	Rare?	Costly to imitate?	Exploited by the organisation?	Competitive implications	Strengths or weaknesses
No	–	–	No	Competitive disadvantage	Weakness
Yes	No	–		Competitive parity	Strength
Yes	Yes	No		Temporary competitive Advantage	Strength and distinctive competence
Yes	Yes	Yes	Yes	Sustained competitive advantage	Strength and sustainable distinctive competence

Source: Adapted from Barney and Hesterly (2010): 84, Tables 3 and 4

regarding the excessive dependence on *internal* resources and a firm's ability to deploy and use it. Limited attempts have been integrate the 'inside-out' with 'out-side-in' approaches, as one can logically argue that firms also need to be cognisant of the external markets in relations to the goods and services they plan to offer. The literature on RBV suggests that this approach may be more applicable to older and established firms as they would have had certain path dependencies and organised their resources in a manner that offers rarity and uniqueness. Because of the social complexity, unique and historical path dependence, and stickiness of the context, it is very difficult for others to understand through the RBV, how rare, unique and non-substitutable resources are developed in the first place or how and which HR practices need to be aligned for the development of certain capabilities in different contexts. As some have argued that excessive focus on core capabilities and competencies may potentially result in a firm developing core rigidities, which in times of a dynamic and volatile environment may make these firms more vulnerable (Leonard-Barton 1992). Finally, Priem and Butler (2001) argue that the RBV is tautological and needs more clarity and rework before it can be empirically tested.

The extent to which a resource or capability is valuable, rare, inimitable will determine the extent of its competitive advantage as shown in Table 1 above.

Applying RBV to SHRM

However, as focus is on applying RBV to HRM, Prahalad and Hamel's (1990) idea of a 'core competence', is relevant here. The authors note this as a set of skills and technologies that represents a firm's ability to use them productively for current and future business needs. Firms always have choices where to invest and which resources they need to invest in.

Wright et al. (1994) differentiated between human capital (key quality of resources) from the approaches (specific HR practices) that are used in managing

human capital to create value, rarity, inimitability and non-substitutability. They argued that while human capital is critical, getting the right behaviours is vital. Lado and Wilson (1994), on the contrary argue and highlight the need for a collective system of HR practices to be a source of uniqueness and inimitability. Building on these discourses, Boxall (1996) introduced the idea of human capital advantage (HCA), wherein firms, through effective approaches of human capital management (i.e. by recruiting and retaining people with high-value, tacit knowledge and skills) and human process advantage (HPA) or superior social capital (i.e. by managing people in unique ways to secure their trust, cooperation and commitment) achieve SCA. Notationally, they expressed human resource advantage (HRA) as a function of HCA and HPA or $HRA = f(HCA, HPA)$. Wright, Dunford and Snell (2001), building on Penrose, Wernerfelt (1984) and Rumlet's (1984) work, provide an excellent account of how the RBV can be applied to the study of SHRM. In their conceptualization, they argue for the role of HR practices in building both the human capital and critical behaviours and relationships between the employees. Related to the above, Boxall and Purcell (2011) caution the problem of appropriation of the value thus generated through deployment of resources within the organisation. The underlying argument is that value and benefits accruing from the above may not always translate into higher profits due to the political processes of appropriation of value and profits by the dominant coalition of stakeholders, who created and captured value in the first place. This dominant coalition can also destroy the value created through misappropriation of profits and value.

Conclusion

To conclude, while individual HR policies alone are less likely to generate SCA or superior value, a collective set of *HR systems* can along with the right pool of human capital and organisational capabilities. In the RBV of a firm, HCA and HPA collectively, can be a source of SCA. To capture value, firms need to think of developing resource heterogeneity and barriers to imitation by focusing on aspects such timing, nature of learning, social complexity and causal ambiguity. Finally, not all resources are equal in enabling a firm to build similar capabilities in its industry; some have the potential to generate distinctive value, while some resources can have a negative impact on value creation and indeed some managerial actions of misappropriation of profits can indeed lead to destruction of value.

Glossary

Capabilities of an organisation can be viewed as the organisation's ability to utilize its resource base in a way that it effectively and efficiently delivers on its business objectives. In short, it is those set of activities that a firm does very well. For such capabilities to be a source of competitive advantage, a firm must utilise these better than other firms.

Competencies can be defined as a set of knowledge, skills and abilities that are needed to successfully perform a set of tasks.

Sustained Competitive advantage is a firm's ability to remain successful over a long period of time in relation to its competitive peer group through its resource and capability endowments

Key Questions and Learning Activities

Question. 1 Competing at a professional level requires you to offer something that is distinctive, inimitable and rare. Can you identify any aspects of your personal HR competency(ies) and capability(ies) that provide you with an advantage? If so, how might you try and apply these to a business setting?

Question. 2 Thinking about your organisation's resources and capabilities, analyse and identify the resources that are rare, valuable, inimitable and organised in a way that allows your firm a source of competitive advantage. What barriers do you think might preserve such an advantage?

Question. 3 Thinking about your organisation's resources and capabilities, analyse and identify the resources that is neither rare, nor valuable and are organised in a way that allows imitation and is a cause of competitive parity or disadvantage. What investments or acquisition of new resources might offer your firm some competitive advantage?

Learning Activity: Applying the RBV to Disneyland

Using the VRIO framework, analyse the key resources that allows Disneyland Resorts a source of competitive advantage. Ensure you discuss each of the four elements of the **VRIO** framework.

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