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A STRATEGIC VIEW OF RESOURCES

Lila L. Carden, Houston Baptist University

ABSTRACT

The resource-based view of a business is focused on resources as strengths within an organization that can generate sustained competitive advantage. The strengths are assembled and mobilized via strategic human resource management activities to support the probability of success. This study provides information to business owners as to whether investment in salaries paid to employees and business owners' experiences will be instrumental in predicting business success. Findings suggest salaries paid to employees and business owners' experiences are statistically significant and somewhat practically significant in predicting business success as defined by revenues.

INTRODUCTION

Research has suggested that one of the main causes of business owner failure is business incompetence and experience (Caroll, 1983). Business owners are rethinking their strategic competitive advantages due to the economic recession and smaller firms are adjusting their revenue-generating strategies to weather the economic climate (Latham, 2009). This rethinking also includes managerial decisions that require alignment between resources and long-term revenues as smaller firms with fewer resources are more sensitive to the economic environment. Business owners are executing revenue-generating strategies including laying off younger workers rather than older workers due to the potential for age-discrimination lawsuits (Mattioli, 2009). The resource-based view of competitive advantage links the firm's internal characteristics and practices with performance (Barney, 1991) and considers the strategies associated with resource decisions.

Businesses usually experience failure due to mismanagement of finances, production, marketing, and people management (Cromie, 1991). The more a business owner experiences financial, production and personnel issues the less chance the firm will be successful. These failures are due to management issues and as such resources may provide a competitive advantage that increases the chances of the firm's success by using resources in strategic analysis, planning and execution (Mathis & Jackson, 2008; McGregor, 1991). These resources include skills, capabilities, and competences of employees and business owners. Drucker (1985) advised that the application of management processes and procedures is instrumental in determining the success or failure of small businesses. Drucker (1985) also proposed that systematic innovation and management behaviors are work traits that can be learned. The learning can occur through experiences including start-up, industry, sales and marketing, and technical experiences (Newbert, Kirchhoff, & Walsh, 2007).

Businesses need to consider the importance of resource analysis, planning, and execution for resource and product support and development. Firm resources include the employees that

are used to improve efficiencies and effectiveness that lead to sustained competitive advantages (Barney, 1991). The success rate for many small businesses is small and a high success rate of new firms "can increase the stock of firms and reduce unemployment but the demise of firms counteract these gains" (Cromie, 1991, p. 43). Thus, it is important that firms are successful in maximizing their contributions to the economy. McGregor (1988) highlights the assets of the resources to maximize economic gains. These assets include knowledge, skills, and abilities. McGregor (1988) also highlights the need to invest in resources ranging from compensation, education, training, and corporate learning systems to research and development.

Alverez and Busenitz (2001) reported that there has been limited research on the integration of resource-based view and entrepreneurship. The research has focused on the phenomena within the context of various theories from other research areas (Chandler & Hanks 1994; Jennings, Jennings, & Greenwood, 2009) but has failed to integrate innovation and entrepreneurial actions from the business owner and employee prospective (Newber, Kirchhoff, & Walsh, 2007). Alverez and Busenitz (2001) suggested that further exploration is needed to consider the entrepreneurial actions that support the assembly and mobilization of resources to create newly transformed assets with an emphasis on innovation and entrepreneurship. This research highlights the integration of strategic human resource management and resource-based view to emphasize the importance of not only employees as resources but business owners as resources. To that end, strategic human resource management and resource-based view will be discussed as frameworks to integrate strategic analysis, planning, and execution (Lahtinen (2007; Mathis & Jackson, 2009; Garavan, McGuire, & O'Donnell, 2004) to support the use of valuable resources as strategic assets.

Strategic Human Resource Management

In this research, the focus of strategic human resource management is to support the execution of strategic organizational goals by effectively and efficiently using resources (Wright, Wright, & Ketchen, 1991). The resources are used to mitigate strategic responses related to economic downturns and may include asset reduction, cost reduction, and revenue generation (Latham, 2009). Thus, strategic growth requires management to position, plan, and prepare their resources. Mathis and Jackson (2008) posited that resources help businesses gain or keep advantages. Mathis and Jackson (2008) also reported that strategic human resource management processes are instrumental in obtaining, developing, and compensating resources and include recruiting and selection, human resource development, compensation, performance management, and employee relations. The human resource management activities are used to obtain resources and their associated competencies and skills which are used as a starting point for long-term strategic and resource planning (Lahtinen, 2007). The use of humans as resources is prevalent in strategic business analysis, planning and execution.

Human resource planning includes an assessment to current resource needs and future resources to ensure the organization has "the right number of human resources, with the right capabilities, at the right times, and in the right places" (Mathis & Jackson, 2008, p. 45). Human resource planning also includes an analysis of other resources including brand names, contracts, equipment, efficient processes and procedures, and capital (Wernerfelt, 1984). According to Barney (1991), a formal planning process enables a firm to recognize and develop resources that

may provide sustained competitive advantages. More specifically, attractive resources are important to business owners because certain resources may create resource position barriers. Theses resource position barriers "indicate a potential for high returns, since one competitor will have an advantage" (Wernerfelt, 1984. p. 173) based on an asset in at least one entry market. Firms that are dominant in the marketplace consider their investment strategy and employability as well as the development opportunities including compensation systems to influence performance.

Strategy execution includes the techniques, tasks, and assignments that are needed for a strategy execution including a follow-up to assess desired results (Thompson, Strickland, & Gamble, 2007). Thompson, Strickland, and Gamble (2007) report that "adding to a company's talent base and building intellectual capital is more important to good strategy execution than additional investments in plants, equipment, and capital projects" (Thompson, Strickland, & Gamble, 2007, p, 361). With this concept in mind, it is critical to not only recruit capable employees, but also to compensate, develop, and retain them to realize effective strategy execution.

Planning, organizing, staffing, and controlling are human resource management activities that support human resources as core competencies (Mathis & Jackson, 2008). The resources may become core competencies by (a) retaining high-performing employees through the use of promotions, bonuses based on performance, and salary increases; and (b) identifying average performers that can be coached to improve knowledge, skills, and attitudes; and (c) investing in training and development (Thompson, Strickland, & Gamble, 2007; Mathis & Jackson, 2008). These core competencies are used to identify and use processes and procedures to efficiently and effectively generate revenues. Goldenberg and Kline (1999) interviewed 128 small business owners from the service, manufacturing, and retail industries and determined that the findings indicated that planning was an important predictor of a business owner's success. Thus, strategic analysis, planning and execution including consideration of the human resource management model of value creation (Sirmon, Hitt, & Ireland, 2007) emphasizes compensation and rewards. Additionally, within the human resource management functions, the business owners may need to include entrepreneurial knowledge and ability to coordinate and compensate resources (Alvarez & Busenitz, 2001).

Barney, Wright, and Ketchen (2001) reported that there has historically been a link between disciplines of strategy and finance and economics. For example, Lahtinen (2007) reported that there was a link between resource-based view and business economics of the woodworking industry. More specifically, Lahtinen (2007) suggested that the "capability to create value-added, making rational strategic choices, and creative usage of intangible and tangible resource have been emphasized as crucial for sustaining woodworking industry competitiveness"(p. 149).

Survival for most small businesses includes strategic analysis, planning and execution with an emphasis on constantly developing resources and business processes (Lahtinen, 2007) to increase productivity and competitive advantages.. The firm's resource profile may enhance revenues; however, the resources must be planned and allocated effectively in order to obtain and maintain a competitive advantage. The strategic planning allows firms to mobilize resources

in order to ensure the resources are not wasted and opportunities not lost (Eddleston, Kellermanns, & Sarathy, 2008) to ensure competitive advantages from first firm entrance.

Resource-Based View

Firm resources can be defined as "anything which could be thought of as a strength or weakness of a given firm" (Wernerfelt, 1984, p. 172). The resource strength is viewed as a means to generate revenue and support a competitive advantage**.** According to Barney (1991), "resources are valuable when they enable a firm to conceive of or implement strategies that improve its efficiency and effectiveness" (p.106). Accordingly, the resource-based model is focused on identifying individual characteristics that generate sustained competitive advantage (Barney, 1991). These competitive advantages may be related to the competencies and skills of the employees as well as the business experience of the business owner. These competencies may include production experience, technological leads, and customer loyalty (Wernerfelt, 1984). Additionally, small firms may possess their own competitive advantages based on their new entrance into the market as first-mover advantages (Barney, 1991). The first firm in an industry may obtain a competitive advantage due to a positive customer-buyer relationship as well as access to distribution channels. The competitive advantages are unique to the firm and not simultaneously duplicated within current or future competitors. Resource-based view defines "the availability of resources and their heterogeneous combination to form the basis for company success" (Lahtinen, 2007, p. 151).

The resource-based view posits that human resources drive organizations' competitive advantage (Barney, 1991). The human resource competitive advantage is predicated on the "the resources and capabilities a firm controls that are valuable, rare, imperfectly imitable, and not substitutable" (Barney, 1991). Barney, Wright, and Ketchen (2001) suggest that "entrepreneurial opportunities emerge when certain individuals have insights in the value of resources that others do not. Barney, Wright, and Ketchen further explain that "entrepreneurial alertness, entrepreneurial knowledge, and the ability to coordinate resources are viewed as resources in their own right" (p.628).

Alvarez and Busenitz (2001) explored the business owner's role as a resource and focused on "founder's unique awareness of opportunities, the ability to acquire the resources needed to exploit the opportunity and the organizational ability to recombine homogeneous inputs into heterogeneous outputs" (p. 771). The business owners' resource role will need to ensure human resource management activities are conducted including human resource planning and formation. The human resource management activities are conducted to obtain, position, and retain high-performing employees through rewards and investing in training and development (Thompson, Strickland, & Gamble, 2007; Mathis & Jackson, 2008). Wernerfelt (1984) discussed the importance of obtaining attractive resources and retaining the resources in order to create opportunities for high financial returns. Wernerfelt (1984) and Barney (1991) supported the primacy of a firm's resources as the driver for competitive advantage.

This study provides information to business owners as to whether investment in resources and experiences with an emphasis on strategic human resource management activities will be instrumental in predicting organizational success defined as revenue. Financial measures have

been studied as measures of firm success (Barney, Wright, & Ketchen, 2001). However, there has been a gap in the research that links financial variables with resource-based data and business strategies (Lahtinen, 2007). The research question that guides this study is as follows: What is the influence of salaries paid to employees and business owners' experiences on business owners' success?

Revenues of business owners are used as a proxy for firm success and the independent variables in this study include the salaries paid to employees, year business started, and number of businesses you own and manage. Year business started is used as a proxy for experience. Salaries paid to employee and business owners' experiences are resource-related variables.

METHOD

The study determined the extent to which salaries paid to employees and business owners' experiences are predictors of business success. The data for the study was obtained from a pre-existing database that included data obtained from questionnaires. The National Data Program for the Social Science conducted the General Social Survey. The General Social Survey includes interviews administered to National Opinion Research Center national samples using a standard questionnaire. The 2008 data set included 200 subjects with business owner related data.

This study included general social survey as a data set; multiple linear regression was used to analyze the data and report findings. Stepwise multiple linear regression was performed to test the hypothesis. Consideration was given to the sample size and the number of predictors to ensure a reliable equation. Thus, the sample size and number of predictors were analyzed to ensure reliability. Therefore, the multiple correlation was at its maximum value from which the equation was derived because there were 225 subjects and 2 predictors (112.5 subjects to 1 predictor) and therefore exceeds the recommended 15 subjects for every predictor recommended by Stevens (as cited in Mertler & Vannatta, 2002). The variables include revenue, paid employees, and year business started.

RESULTS

The results revealed that the model of independent variables was statistically significant (p value is .000) and the relationship between the set of independent variables and the dependent variable was large enough to be statistically and somewhat practically significant in predicting receipts. Regression results indicated an overall model of two predictors including salaries paid to employees and year business started. The dependent variable was revenue and the independent variables were salaries paid to employees and year business started. Table 1 contains the means, standard deviations and sample for the independent and dependent variables.

TABLE 1

Descriptive Statistics

	Mean	Std. Deviation	N

Revenue	3.87	3.296	225
Salaries Paid To Employees	1.69	.464	225
Year Business Started	1998.52	11.105	225

Table 2 below contains the intercorrelations for the dependent and independent variables.

TABLE 2

Intercorrelations

Variable	Revenue	Salaries Paid To Employees	Year Business Started
Revenue	1.000	-.453-	-.410
Salaries Paid To Employees	-.453	1.000	.305
Year Business Started	-.410	.305	1.000

Stepwise selection was performed to determine the significance of each independent variable. More specifically, the bivariate correlations were calculated and assessed to determine the order in which the variables were entered into the model (Merler & Vannatta, 2002). Salaries paid employees was the first variable entered into the model and the second variable entered was year business started. Tables 3 and 4 contain model summary and ANOVA information. The overall model of the two independent variables was statistically ($p<.000$) and somewhat practically predict salaries (r square equals = .287).

TABLE 3

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.453[a]	.206	.202	2.945

2	.536[b]	.287	.281	2.796

a. Predictors: (Constant), SALARIES PAID TO EMPLOYEES
b. Predictors: (Constant), SALARIES PAID TO EMPLOYEES, YEAR BUSINESS STARTED
c. Dependent Variable: REVENUE

TABLE 4

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	500.359	1	500.359	57.705	.000[a]
	Residual	1933.641	223	8.671		
	Total	2434.000	224			
2	Regression	698.496	2	349.248	44.675	.000[b]
	Residual	1735.504	222	7.818		
	Total	2434.000	224			

a. Predictors: (Constant), SALARIES PAID TO EMPLOYEES
b. Predictors: (Constant), SALARIES PAID TO EMPLOYEES, YEAR BUSINESS STARTED
c. Dependent Variable: REVENUE

In Table 5, the standardized coefficient beta values are reported salaries paid to employees had the greatest influence on revenues (beta weight = -.362) and then year business started (beta weight = -.3.00). The direction of influence is negative for salaries paid to employees and year business started.

TABLE 5

Multiple Regression Standardized Coefficients – Beta Stepwise

Predictor Variable	Beta
Salaries Paid To Employees	-.362
Year Business Started	-.300

The best model for the data included salaries paid to employees and year business started as displayed by the following equation: y=185.914+.-362 Z (Salaries Paid To Employees) + -.300 Z (Year Business Started). Statistically the data revealed that a business owner is more likely to receive higher revenues if salaries paid to employees are lower and the business is new.

DISCUSSION

The study explored if salaries paid to employees and year business started predict business owners' success as identified by revenues. The model was statistically significant and somewhat practically significant and collectively the independent variables represented 28.7 % of the variance in revenues. The results also indicate that there are other predictors of success. For example, business owners may need to also consider the competencies and skills that impact worker productivity (Garavan, McGuire, & McDonnell, 2004).

The results suggest that the resource-based view is important in predicting business owner success. As such, resources are instrumental in business owners' success and are important considerations in strategic human resource management including analysis, planning and compensation of those resources. More specifically, salaries paid to employees explained 20.2% of the variation. When salaries paid to employees are lower; then, revenues are higher and as such strategic human resource management may need to include measures that evaluate the performance of employees and link salaries to performance. Additionally, the years of business experience defined as year business started provides a competitive advantage that leads to firm success (Barney, Wright, & Ketchen, 2001). The higher the revenues based on less experience in the business may be due to the new entrance in the business as first-mover including customer relations and access to distribution channels (Barney, 1991).

The study proposes that other attributes besides resources and business owners' experience are relevant to predicting career success as measured by revenues. For example, the study by Gutteridge (1973), to predict the career success of graduate business school alumni, revealed that there were differences in career success due to mobility. Thus, organizational variables and industry/region variables were predictors of revenues. Additionally, a study by Lin (1999) "confirmed that contact status (occupation's prestige and sector) exerted the strongest effect on attained prestige and sector, respectively" (p. 471). As such, Lin's study suggests that success may be defined based on intrinsic rewards rather than extrinsic rewards.

The study results are limited to the context in which the data was collected and limitations that may be imposed on those results. For example, the study was based on a pre-existing data set and the instrument imposed a limitation because there was no flexibility in using the data or adjusting the measurements. For example, the study defined success as revenues and other variables including return on investment and receipts were not used to define success. Additionally, success can also be defined as intangible assets including job satisfaction and work-life balance.

The study is limited in that there were no data related to the skills and competencies of the employees as well as an evaluation of their overall performance. This study did not also

consider the frameworks used to execute strategic human resource management functions and the impact of those frameworks on the overall success of the business. For example, project management has been considered as a framework to execute strategic initiatives (Thomas, 2006). The project management framework is more flexible and adaptable to changing environmental demands including global and technological changes. Additionally, project management offers a holistic approach to prevent failed initiatives by planning, organizing, directing, and controlling resources for meeting specific goals and objectives (Kerzner, 2001).

IMPLICATIONS

The implications of the study are related to reducing the failure rates of business owners (Cromie, 1991) by including strategic human resource management processes that are focused on hiring, placement, compensation, and acquisition of and development of all types of resources. Examining predictors related to the survival of businesses and their successes are important considerations for current business owners as well as future business owners. Past research has shown that there is a link between a firm's internal resources and performance (Barney, 1991).

Business owners need to view their firm as a system of resources and capabilities to develop and leverage their strategies in order to align resources with efficiencies that promote increased business revenues. Additionally, business owners need to consider the phases of human resource management including structuring, bundling, and leveraging (Sirmon, Hitt, & Ireland, 2007) capabilities to create opportunities that yield increased revenues. The opportunities are contingent upon measures and controls that provide feedback at each stage of the process to make adjustments in resource planning as needed. More specifically, the business owners need to ensure alignment of recruitment, selection, performance evaluation, and rewards.

The study highlights some additional considerations that need to be addressed as potential areas for business owners' failures. For example, Cromie (1991) suggested some traditional problems that usually contribute to firm failures including (a) financial problems including lack of funds; (b) marketing problems including insufficient sales, competition, and promotion; (c) and personnel problems including lack of time and performing various duties. The study supports the approach that "the relationship between resources the theory predicts should generate competitive advantages and a firm's overall performance" (Ray, Barney, Muhanna, 2004, p. 35). More specifically, Black and Boal (1994) posit that resources are made up of strategic resource factor relationships that include "network type, available substitutes and cogency relationships (compensatory, enhancing and suppressing)" (p. 131).

CONCLUSIONS AND RECOMMENDATIONS

The findings in this research suggest that resource-related variables including salaries paid to employees and year business started are instrumental in helping business owners predict success. Salaries paid to employees and year business started were statistically and somewhat practically significant. When salaries paid to employees are lower and when business owners are new to the business then revenues are higher. Findings suggest that business owners need to invest in resource analysis, and planning including revenue-generating strategies to weather the economic climate as well consider the newness of the business when considering the success of

the firm. The revenue-generating strategies may include lowering salaries paid to employees via layoffs (Mattioli, 2009) or a reduction in compensation packages as well as resource position barriers due to market entry (Wernerfelt, 1984). Business owners may possess competitive advantages due to new entrances in the market as first-mover advantages including positive customer-buyer relationships as well as access to distribution channels (Barney, 1991).

Strategic human resource management processes including planning, management, and formulation ensures coordination of resources and alignment of compensation based on individual productivity to meet the current global and technological challenges. More specifically, business owners may establish a link between resources, strategy, and performance that can provide a metric for investors to predict long-term firm sustainability (Newbert, Kirchhoff, & Walsh, 2007). The reduction in the compensation of some employees is predicated on aligning compensation with job performance in order to meet strategic goals with a focus on performance improvement to impact financial returns. This study also highlights the importance of considering other predictors of success including organizational variables and industry/region variables, contact status, and intrinsic rewards.

Future studies may need to include other variables that predict firm success including demographic variables, location, firm characteristics as well as the sources of start-up and funding. More specifically, the amount and number of paid employees may be related to the size of the firm (Judge, Cable, Boudreau, and Bretz, 1995, p. 495) and geographical location. Additionally, external environmental forces need to be considered when planning for firm success including current and future competitors, skills and abilities necessary for competitive advantages and executing business strategies (Sirmon, Hitt, & Ireland, 2007).

Further research needs to consider the interplay of factors and relationships that create resources that are rare, inimitable, and organized. Black and Boal (1994) propose that a network of relationships among resources is an important consideration for attaining and sustaining a competitive advantage. The aforementioned authors focus on the types of resources categories as a means to emphasize the scarcity of the resources and include contained resources and system resources. Black and Boal (1994) further posit that "an organization's unique set of assets is the result of the relationships both within and across the levels of factors, resources, and competencies" (p. 136).

Future studies may also include business processes (Ray, Barney, & Muhanna, 2004) and project management methodology as primary factors for a firm's competitive advantage. Project management has been used as a systematic approach to organize workplace processes and tasks (Betts & Lansley, 1995). Project management has been deemed a core competency and is essentially about dealing effectively with people (Posner & Kouzes, 1998) and includes the following human resource management processes: recruiting and selection, human resource development, compensation, and performance management (Clark & Colling, 2005).

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