

A Modelling Relationship between Firm Strategic Advantages and Organizational Edge

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Abstract

The paper show the relationship between firm-specific-advantages (FSA) and how these can aid gaining an organization's competitive edge in the present turbulent business environment. These firm specific advantages FSAs include Human Capital, Organization Culture, and Organization Structure (Verbeke 2009) and how these can lead towards organizational edge, and to provide a conceptual framework for the analysis of human capital management in learning organizations. Discourse on competitive advantage is of wide prevalence, clear definitions are rare and it is often used interchangeably with concepts like distinctive competence (Day and Wensley, 1988). Advantage is a relative concept (Hu, 1995; Kay, 1993), only meaningful when compared to another entity or set of entities. A competitive advantage, then, is an advantage one firm has over a competitor or group of competitors in a given market, strategic group or industry (Kay, 1993) and this Firm-Specific Advantages is discussed in this paper.

Keywords: Human Capital, Competitive Edge, Organization culture, Organization structure

1. Introduction

Firms build competitive advantage by utilizing unique set of resources (Edelman 2002). Resources includes all assets, capabilities, processes and knowledge controlled by a firm that enables it conceive and implement strategies to improve effectiveness (Barney 1991).

Firm Specific Advantages- is an advantage one firm has over a competitor or group of competitors in a given market, strategic group or industry (Fahy 2000)

Human capital - makes reference to the tacit or explicit knowledge which people possess, as well as their ability to generate it, which is useful for the mission of the organization and includes values and attitudes, aptitudes and know-how (CIC 2003)

According to Peters and Waterman (1982), organizational culture is typically defined as a complex set of values, beliefs, assumptions, and symbols that define the way in which a firm drives its business. Organizational culture is an element of cohesion conformed by the values and beliefs of people who take part in the firm and therefore constitutes its manner of existence (CIC, 2003), it provides an identity and it determines its behaviour towards the internal (employees) and the external agents (customers, suppliers and other agents).

While there is little consensus concerning the definition of organizational culture, as well as its classification (Deshpande' and Farley, 2004), there is broader agreement about its role in gaining sustained competitive edge (Barney, 1986b; Grant, 1991).

The value of human capital depends on their potential to contribute to the achievement of an organizational competitive advantage. Recent studies suggest that human capital attributes (including training, experience and skills) – and in particular the executives' human capital – have a clear impact on organizational results (Barney, 1991; Finkelstein and Hambrick, 1996; Huselid, 1995; Pennings et al., 1998; Pfeffer, 1998; Wright et al., 1995).

Although the use of human capital knowledge is an important factor in the actual competitive environment, it is not enough to use as a basis. Thus, Wright et al. (1995) consider that “despite the firm's resources and capacities have added some value in the past, changes in the industry's structure or in technology may turn them into less valuable in the future” (p. 51). Therefore, it is important to manage human capital, their knowledge and competences in such a way that the organization can build a long-term competitive advantage, bringing us into the theoretical aspect the resource-based view.

The origins of the resource-based view (RBV) of competitive advantage in the research stream can be tracked to 1984, with the appearance of the well-known article of Wernerfelt (1984). Since then it has been nurtured by the contributions of various academics (Barney, 1991; Grant, 1991; Peteraf, 1993; Amit and Shoemaker, 1993; Black and Boal, 1994; Teece et al., 1997). This theory is sustained by two fundamental axioms. The first one argues that resource endowments are heterogeneously distributed among firms, and this explains differences in firm performance.

The second axiom states that owning or controlling superior resources and capabilities allows the firm to sustain the competitive advantage which prevents competitors in eroding a successful resource-based strategy.

More than any other theoretical perspective in the field of strategic management, the resource-based theory has drawn the attention of scholars and practitioners alike. This is particularly evident in dynamic capabilities (Teece et al., 1997), the knowledge-based view (Kogut and Zander, 1992) and the relational view

(Dyer and Singh, 1998). Also critics of this theory (e.g. Priem and Butler, 2001; Bromiley and Fleming, 2002) as well as adherents, it is undoubtedly one of the most influential theories in the field. As testimony to this, according to a recent study of article impact, the two most highly cited articles published in the Strategic Management Journal during the 1990s were conceptual resource-based articles (Peteraf, 1993; Teece et al., 1997). The citation count of Barney's (1991) classic resource-based article is even higher, exceeding 5,224 as of January 2007 (Ordoñez de Pablos et al., 2007).

The influence of resource-based theory can be attributed to a number of factors. It concerns what is arguably the most central topic in the field of strategic management – why some firms outperform others.

Numerous studies have set out to examine the relationship between firm strategic resources and firm performance. The relationship between firms' resources and performance has been a major area of interest in strategic management research over the last 20 years, and resource-based theory (RBT) (Barney, 1991; Peteraf, 1993; Wernerfelt, 1984) has become a predominant theoretical framework in contemporary strategic management research

The resource-based view of the firm (RBV) receives great attention in the strategic management literature. Its orientation towards internal analysis of the firm offers to human resource strategic management a valuable conceptual framework, through which to analyse the ways in which firms try to develop their human resources with the aim of transforming them in a sustained competitive advantage (Wright and McMahan, 1992).

This situation appears when the firm controls resources and capabilities which characteristics make them hardly susceptible to imitation, and when market failures exist (Lippmann and Rumelt, 1982; Barney, 1986, 1991; Grant, 1991; Peteraf, 1993; Priem and Butler, 2001).

Nevertheless, it must be taken into account that not all the assets that a company owns or controls have the same strategic value. Some resources can be more valuable than others, and this is the case of intangible assets (Itami and Roehl, 1987; Hall, 1992, 1993; Barney, 1991; Grant, 1991, 1996). These are also called intellectual capital, and they include a wide range of elements such as know-how, reputation, culture, or technology, among others. It is easy to think about different strategic values among different elements of the intellectual capital or knowledge assets.

The compilation of all the characteristics found, according to Gregorio et al (2006) are as follows;

Inimitability- (Barney, 1991; Dierickx and Cool, 1989; Reed and DeFillippi, 1990; Grant, 1991; Peteraf, 1993; Black and Boal, 1994; Fernánde z and Sua´ rez, 1996; Vicente-Lorente, 2000), is the difficulty of competitors to copy the resources and capabilities of the company through human capital development.

Value- (Barney, 1991), is the utility of the resource for successful competition in a certain industry. Then, value depends on the fit between the resource or capability with the strategy (Aaker, 1989; Amit and Shoemaker, 1993).

Apropriability- (Grant, 1991) is the possibility of the company to take control of the rents generated by the resources and capabilities which it has.

Durability- (Dierickx and Cool, 1989; Grant, 1991; Prahalad and Hamel, 1990) talks about the life expectancy of the resources and capabilities that are the source of competitive advantage.

Insubstitutability- (Dierickx and Cool, 1989; Barney, 1991; Peteraf, 1993), represents the situation in which alternatives to replace a resource or capability, by means of a resource or capability with similar or equivalent character, do not exist.

Non-transferability- (Dierickx and Cool, 1989; Barney, 1991; Grant, 1991; Peteraf, 1993) Culture, Organizational learning, etc.

The term intellectual capital is used as a synonym for intangible or knowledge assets since the work by Stewart (1991). The fact of calling it "capital" makes reference to its economic roots, because it was described in 1969 by the economist Galbraith as a process of value creation and at the same time a bundle of assets. The definition by Bueno-Campos (1998, p. 221): "basic competencies of intangible character that allow to create and maintain competitive advantage" argues how we can tie intellectual (human) capital to the RBV. Nevertheless, a more detailed classification is needed in order to reach a better understanding.

2. Human Capital and Organization Competitive Edge

The idea that human resources can become a source of competitive advantage for the organization is not new (Huselid, 1995; Ordoñez de Pablos, 2004; Pfeffer, 1998; Schuler and Jackson, 1987; Wright et al., 1995). It is generally accepted that firms can create a competitive advantage from human resources and their management practices. Effective human resource management will generate a higher capacity to attract and hold employees who are qualified and motivated for good performance, and also the benefits from having adequate and qualified employees are numerous. Such as higher profitability, higher product quality, lower costs in manufacturing, better performance and a faster acceptance and implementation of the organizational strategy.

Organizational resources lead to a sustained competitive advantage when they are valuable, rare, imitable and have no substitute.

In order to be a source of competitive advantage, human resources must create organizational value. Resources are valuable if they allow the organization to develop strategies that improve efficiency and efficacy (Barney, 1991). This demands that both job demand and offer should be heterogeneous – that is to say, organizations offer jobs that need different types of skills and individuals show differences in their skill types and levels.

Thus, there is a variance in the value that individual contributions have for the firm, and therefore human resources can give value to the firm (Wright et al., 1995).

Second, resources must be rare in order to form a source of competitive advantage. In the human resource management context, this characteristic depends on the job pool's heterogeneity (Wright et al., 1995). If types and levels of skills are not distributed in a normal way, then some firms will be able to get the talent they need, while others will not, *ceteris paribus*, this form of human capital means a source of sustained competitive advantage. Moreover, the rareness criterion is also connected with the concept of labour mobility (Williamson, 1985).

Third, if a resource is to become a source of sustained competitive advantage, it must be inimitable. Firms can obtain human capital in the market, or by developing it internally. In the human resource management context, if a resource can be duplicated or imitated by another firm, then it is not a source of sustainable competitive advantage (Ordóñez de Pablos and Lytras 2008). Finally, for a resource to become a source of sustained competitive advantage, it must not have any substitutes. Human resources are one of the few organizational resources with the potential not to become obsolete and to be transferable to a variety of technologies, products and markets.

Figure 1

<i>Valuable</i>	<i>Rare</i>	<i>Is the resource . . . Difficult to imitate</i>	<i>Non-substitutable</i>	<i>Competitive implications</i>
No	–	–	–	Competitive disadvantage
Yes	No	–	–	Competitive parity
Yes	Yes	No	–	Temporal competitive advantage
Yes	Yes	Yes	No	Competitive advantage
Yes	Yes	Yes	Yes	Sustained competitive advantage

Source: Barney 2001

Having talented individuals on the payroll is one thing; leveraging their capabilities to secure competitive advantage is another (Lawler, 2009). Talented people may not only be costly to recruit, they can be difficult to manage and retain. Colleagues might feel threatened by them or alienated by their special treatment ((Ordóñez de Pablos and Lytras 2008), they may appear *prima donnas*, obsessed with building their CVs and personal careers.

Clever people need to be appropriately managed if their full potential is to be realised (Thorne and Pellant, 2007; Goffee and Jones, 2009; Groysberg et al., 2010), yet just focusing upon them can result in other possibilities being missed.

2.1 Organization's Culture and Organization's Competitive Edge

Firms with strong cultures are pointed out as examples of excellent management (Peters and Waterman 1982). From an internal point of view, firms that are successful at obtaining productivity through their people generally have an organizational culture that supports and values the contribution of the employee. From an external point of view, organizations that have strong customer cultural values, stay close to their customers, providing in timely market information, joint product development activities, and achieve competitive edge. In short, organizational culture adds financial value for the company (Barney, 1986b) and relates it with the competitive environment. In this sense, a culture will be valuable if its characteristics fit with the environmental ones (Amit and Shoemaker, 1993), when the attributes that shape that culture are not common to most companies, they allow to take advantage form the dynamics of the *ex- ante* competition (Peteraf, 1993).

The competitors are disadvantaged in order to copy the culture of the company since it requires several certain conditions and time for its formation as it involves historical dependency, social complexity and causal ambiguity, and it is therefore hardly to imitate (Dierickx and Cool, 1989). The RBV understands firms – and their cultures – as idiosyncratic social inventions, limited by its history (Wernerfelt, 1984; Barney, 1991), because they reflect the unique circumstances of its foundation, the unique personalities of its founders and the unique circumstances of its development (Ordóñez de Pablos and Lytras 2008).

All of these experiences shape its culture. Organizational culture is also inimitable in order to be measured, so it is not possible for individuals to watch and describe what isolated elements of a certain culture add value to the organization (Lippman and Rumelt, 1982) because values, symbols and beliefs are difficult to describe. Thus, it is almost impossible for the potential imitator to copy something that cannot be described clearly (Gregorio et al 2006). Culture is not absolutely irreplaceable, because different cultures can lead to quite similar outcomes (Deshpande' and Farley, 2004) when they are rightly coupled with other elements as firm strategy. This means

that the company must, rather than develop an alternative culture, look for its own. In terms of property rights, although the boundaries of organizational culture are not very clear, the benefits that it can originate belong to the firm, and they will not disappear, even if some individuals leave it, because culture is an organizational capability (Barney 1986b).

In short, culture can be highly valuable, difficult to imitate and to transfer. It has in addition a wide life span, and although it can be replaced, this does not represent a serious threat, because obtaining an alternative culture would be quite difficult. Hall (1993) places culture in fourth place among the most important intangible resources for a firm to have. Peters and Waterman (1982) also place this asset among the main attributes of an excellent firm. In this way, a strong organizational culture can be a source of sustained competitive edge.

2.2 Structure and Organization's Competitive Edge

Organizational structure is the set of means and processes devoted to the formal organization of the firm (CIC, 2003). Formal organization is a planned structure and represents a deliberate attempt to establish relations between the components in charge to fulfill the objectives efficiently (Kast and Rosenzweig, 1987). The formal structure is something necessarily intangible and abstract like, for example, the relationships of authority between people within an organization, which do not have physical existence but that influence in an important way the running of the firm (Ordóñez de Pablos and Lytras 2008).

The traditional form of the organization is based on structures focused in control, designed with the objective to optimize the use of physical resources such as machinery capacity, materials and human capital (Chandler, 1962). However, different models of structure have tried to overcome the traditional form in a search for adaptation to the objectives and characteristics of each firm. So, two companies in the same market with different and equally efficient structures can be found. Hence, we can deduce that structure, is susceptible to substitution.

The formal structure of the organization and its external links plays an important role in innovation management and in how the competences and capabilities evolve (Teece, 1996). The relevance of this relationship of the structure with its environment has been pointed out by the contingency approach (Burns and Stalker, 1961; Lawrence and Lorsch, 1967). Authors from this research stream state that the structure of the company must fit to the external environment. Thus, it can fluctuate between mechanical structures and organic structures, according to changes in business uncertainty and dynamism. From this it can be deduced that the value of the structure will be based on its fit to the environment conditions. This conclusion is supported by organizational theory, based on the search for stability and for the reduction of uncertainty levels by means of structures and processes of balance.

Nevertheless, recent studies seem to indicate that in hypercompetitive environment the stability of the structure has limitations. Rindova and Kotha (2001) analyze the structure and competitive advantage of companies in highly competitive surroundings co-evolving in a dynamic fashion, according to which they call "continuous morphing".

This way we can state that the durability of the structure depends on the competition and change rates present in the environment. Thus, the more competitive and changing the industrial environment, the shorter life expectancy for the competitive advantage obtained from organizational structure.

In regard to the implementation of the hierarchy principle in the structure, as well as levels of vertical and lateral integration, we found specific aspects of the structure of each firm that although are not too difficult to find, they are not so easy to imitate, because they involve several forms of communication, cooperation and integration between the different members embedded in the structure. Thus, some authors understand organizations as systems devoted to information processing (Cyert and March, 1965; Nadler and Tushman, 1988).

This system captures information from outside the company and it also incorporates the internal knowledge and information present within the firm, making it able to perform its activities, deploy and redeploy its different assets. This way, Mendelson (2000) claims for the design of an organizational system specially focused on effective information processing and fast response.

It is necessary to mention that structure and culture maintain a strong relationship between them, which means the first is as hard to transfer as the second.

3. Recommendations

In this paper, we have presented three observations on the construct of competitive edge and firm-specific advantages and conceptually exploring competitive edge as a relational and context-specific construct.

We have also attempted an examination of the complex relationship between competitive edge and firm performance. Obviously, this article raises more questions than it answers. Overall, one conclusion seems to have emerged from the tour of literature that we have taken in this article. That is, for competitive advantage to be a theoretically meaningful construct for strategy research, its definition must be more clearly and rigorously stated and its operationalization's better specified.

If not, competitive advantage will only remain a heavily loaded term, used largely for convenience but

not theoretical preciseness.

People help organizations to excel at activities that are crucial today and handle challenges as, when, and wherever they arise, rather than groom “high fliers”. Applications examined demonstrate more practical and cost effective approaches can boost performance, cut costs, speed up responses, reduce stress and ensure compliance (Coulson-Thomas, 2012a). Both people and organisations can benefit and exceptional individuals can have a global impact. They can be helped to become even better and to secure the recognition they deserve.

People are costly, and justifiably so. People are the most important drivers of a company's competitive advantage. By retaining great employees, you also retain such intangibles as the capacity for innovation, the source of productivity improvements, and the basis for customer satisfaction that can help organization to sustain competitive edge, as well successful human capital strategies can also translate into more money on the balance sheet.

This paper allows a firm to evaluate its internal factors and to determine the potential of each element for sustainable competitive advantage through the fulfillment of the characteristics of value, imitability, substitutability, non-transferability, and appropriability.

From the different elements of firm specific advantages, such as Human Capital, Organizational Structure and Culture show the highest potential for sustaining competitive advantage. Structure and Culture take risks of imitation and substitution by competitors, and their life expectancy depends heavily on the environmental turbulence. When they complement each other and the environmental demands, they can turn into assets difficult to imitate and to transfer, allowing the company to maintain its competitive advantage. Therefore, interaction and relatedness between elements is the key for having a strategic organizational capital, and fostering these characteristics will be the main task for the manager in charge of its development.

Further research in this stream would strengthen a prescriptive theory about firm specific advantage, in the search for gaining sustainable competitive advantage

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