

SUSTAINABLE COMPETITIVE ADVANTAGE

Sustainable Competitive Advantage: Organizational Culture and Human Resource Perspective

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ABSTRACT

This paper attempts to develop a theoretical background that undertakes the concept of organizational culture and human resource in attaining, sustaining and renewing the sustainable competitive advantage of firms. Firms that own valuable, rare, inimitable and non-substitutable resources in the form of tangible and intangible assets are the only ones to continue to survive in today's dynamic market conditions. It has been found that organizational culture and human resources which are rooted in social interactions occurring over a period of time influences people's behavior. This influence is created through the use of language, technology, rules and regulations and, knowledge and ideas. Culture created in organizations thus becomes a source of creating causal ambiguity and isolating mechanisms which are difficult to imitate, interpret and understand explicitly.

INTRODUCTION

It is believed that sustained superior performance of the firms is dependent on managerial beliefs and values that are prevalent in successful organizational cultures. These organizational cultures are characterized by various managerial values that define the way business is conducted. Core values are linked with management control systems in order to bring innovation and flexibility in firms, which ultimately lead to superior financial performance (Deal & Kennedy, 1982; Peters & Waterman, 1982; Tichy, 1983; Barney, 1986). IBM, Hewlett-Packard, Proctor and Gamble and McDonald's are considered excellent examples of strong culture and efficient management styles. In these firms two fold efforts are made. Efforts are made not only to improve the financial performance of the firm but also to develop the employees' skills and capabilities, improve their quality of work and boost their morale (Quinn, 1980; Peters & Waterman, 1982; Barney, 1986).

Sustainable competitive advantage (SCA) is the firm's distinctive and unmatched position with respect to the competitors that allows the firms to outperform its rivals consistently over the period of time (Hofer & Schendel, 1978; Porter, 1985; Fiol, 1991). Although competitive advantage (CA) can be gained through size, location, access to superior resources (Ghemawat, 1986) and even through plain luck (Barney, 1986a). But most of the researchers have considered organizational competencies as a source of CA (Selznick, 1957; Nelson & Winter, 1982; Reed & DeFillippi, 1990; Fiol, 1991). According to Reed and DeFillippi (1990), appropriate set of skills and resources as well as the way assets are utilized to turn the raw material into finished goods make up the firm's competencies. Thus it can be believed that competency is something more than a set of tangible assets, a firm has. It includes intangible and human factors as well, so that goods and services are produced in order to satisfy the customer needs (Lado & Wilson, 1994). Among the organizational competencies that are considered as potential source of SCA are "Culture" (Barney, 1986a; Fiol, 1991), "Learning" (Fiol & Lyles, 1985; Teece et al., 1990), "Routines" (Nelson and Winter, 1982) and "Entrepreneurship" (Schumpeter, 1934; Rumelt, 1987; Nelson, 1991).

The purpose of this paper is to develop a theoretical outline that undertakes the concept of organizational culture and human resource and then relate these two concepts to explain, how SCA can be gained. Literature is reviewed for organizational culture, human resources and SCA. Then a relationship is developed that tends to explain how these three concepts can be studied together. This paper then discusses the role of organizational culture and human resource in the SCA by looking at the conditions under which human resources are valuable, rare, inimitable and non-substitutable. Moreover, it can also be concluded that

organizational culture can play the role in achieving SCA, under the narrow set of conditions. Finally, the culture concept will be used to explain the link between observable and unobservable behaviors and their social meanings in organizational settings.

Research Objectives of the Study

This paper, as discussed earlier, aims to develop a theoretical framework to study the role of organizational culture and human resource in achieving the sustainable SCA. For this purpose, following research objectives have been taken up:

- Under what circumstances organizational culture can be taken as a source of SCA?
- How SCA is achieved through effective management of people/HR?
- What competencies firm must possess, in order to gain SCA?
- How the link between organizational culture and human resource can be efficiently managed in order to achieve SCA?

Literature Review

Organizational Culture

The term "Organizational culture", which is also labeled as metaphor (Daft & Weick, 1984) has its roots in the expansive fields of anthropology and sociology (Smircich, 1983). Some sociologists refer organizational culture to group of individuals within an organization (Meek 1988). Beliefs, theory and propositions, that preside over the processes that convert the raw materials in to finished products, lie at the heart of Organizational culture research paradigm (Fiol, 1991). The term organizational culture is often used, intentionally and unintentionally, to mask the problems and dilemmas inherent in social structure, since organizational culture and its structure is socially constructed (Meek, 1988). Some organizational culture studies assume, that culture exists in a real and concrete form within the organizations, that can be manipulated, measured and managed in order to supplement the organizational performance and effectiveness. Extensive work has been carried out to observe and assess the link between organizational culture and effectiveness. It has been implied, categorically that ineffective organization can be made effective; inefficiency can be changed with efficiency by changing the culture as culture itself encompasses people's values, norms, beliefs, attitudes and cognitive patterns (Meek, 1988; Fiol, 1991). The concept of organizational culture has been used as analytical and interpretive tool, to translate the human actions in terms of organizational performance. Although the theories of organizational culture and strategy appear to be well-matched and complementing, yet both these concepts belong to entirely opposite research streams. Strategy theorists, on the

one hand, are more concerned with observable organizational facts and tend to be prescriptive. They believe that observable facts can be easily managed and improved. Cultural theorists, on the other hand, give more importance to unobservable organizational phenomenon. They use descriptive approach while studying the forces in organizations that are subliminal and cannot be observed directly (Fiol, 1991).

Organizational culture, according to Kilmann (1982, p. 11), is "the collective will of members" and it is "what the corporation really wants or what really counts in order to get ahead. Schwartz and Davis (1981, p. 33) state that culture is "a pattern of beliefs and expectations shared by organization's members" which create "norms that powerfully shape the behavior of individuals and groups in the organization". Kilmann et al. (1985a, p. ix) define organizational culture as the "invisible force behind the tangibles and observables in any organization. Culture is to the organization what the personality is to the individual... Culture can be defined as the shared philosophies, ideologies, values, assumptions, beliefs, expectations, attitudes and norms that knit a community together" (Kilmann et al., 1985a, p. 5). Sathe (1985, p. 255) believe that culture is "those beliefs and values people consider to be their own; that is, those they have internalized". Allen (1985, p. 334) associates culture with internalization of norms in the following way:

"norms encompass all behavior that is expected, accepted or supported by the group, whether that behavior is stated or unstated. The norm is the sanctioned behavior and people are rewarded and encouraged when they follow the norms and chastised, confronted and ostracized when they violate them."

According to Kilmann et al (1985b, p. 423, p. 431) culture can be considered as "controllable variable" and "managing corporate cultures is now possible". Kilmann (1985, p. 351) states that "to understand the essence or soul of the organization requires that we travel below the charts, rulebooks, machines and buildings into the underground world of corporate cultures".

In addition, organizational culture research paradigm hold "Culture Purist" and "Culture Pragmatist" view as well (Smircich, 1983). Culture Purists assume that culture is an emergent process that stands on a certain set of underlying values and assumptions and their purpose is to describe organizing process rather than predicting the outcomes. The important features of culture are largely unconscious and are deeply seated in the beliefs and value systems (Krefting & Frost, 1985). Culture pragmatists, on the other hand, believe that culture is a tool for achieving profitable outcomes for an organization and is a mean to refurbish organizational commitment, profitability and productivity (Fiol, 1991). The

pertinent features of culture, according to this school of thought, are observable and can be managed in the form of espoused values, rewards policies, dress codes and etc. (Schwartz & Davis, 1981; Peters & Waterman, 1982; Tichy, 1982; Siehl, 1985).

Organizational Culture as a Competency to Achieve SCA

According to strategy scholars, SCA is accomplished by the firms, when resources and capabilities owned by them are valuable, rare, inimitable and non-substitutable (Barney, 1986a, 1991) and in this regard Resource Based View of firms' strategy and competitive advantage has played significant role in both theoretical and practical implications (Hansen & Wernerfelt, 1989; Reed & DeFillippi, 1990; Teece et al., 1990; Rumelt, 1991; Barney, 1991; Conner, 1991; Lado et al., 1992; Mahoney and Pandian, 1992; Amit and Schoemaker, 1993).

Wernerfelt (1984, p. 172) defined resource as "anything which could be thought of as a strength or weakness for a given firm.. those assets which are tied semi-permanently to the firm". Barney (1991, p. 101) enlarged the scope of this definition to include "all assets, capabilities, organizational processes, firm attributes, knowledge, information etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness". Barney further classify the resources into three categories. Physical capital resources which make up firm's geographical location, building, equipments and machinery; Human capital resource takes in to account the intelligence, cognition, experience, attitudes, behaviors and analytical skills of all the employees and Organizational capital resource accounts for organization structure, planning processes, controlling and coordinating mechanisms, formal and informal groupings that form the part of intra-organizational and inter-organizational environment (Lisman et al., 2004).

Following the Resource Based View of firms, Barney (1986b) contends that firm's culture can provide SCA, if it follows three condition: 1) organizational culture should be "Valuable": it should allow the firm to gain economic profits, through soaring sales, low productions costs and large profit margins, thus adding financial value to the firm. 2) organizational culture should be "Rare": it should have those characteristics and features that are not match-able with the competitors' organizational culture. 3) organizational culture should be "Inimitable": there should be certain critical success factors of the firm, so that competitors are unable to reap the benefits of competitive advantage. These three characteristics of SCA are derived from the research work of strategists (Porter, 1980) and economists (Hirshleifer,

1980). In order to achieve above normal financial returns, organizational culture plays integral role.

Micro economist divide the financial performance of firms into three categories; normal performance, superior performance and below normal performance. Normal performance, according to economic stance, is the rate of return on firm's investment which is essential to keep assets running (Hirshleifer, 1980). Organizational theorists, on the other hand, define normal performance as a return on assets that is critical for firm's survival (McKelvey, 1982). According to Copeland and Weston (1979), normal return is what firm expect to receive in perfectly competitive markets. Below normal performance is the rate of return on firm's investment which is insufficient to keep assets running and makes it difficult for firm to continue its operations. Superior financial performance is the indicator of the fact that firm is gaining excess return on its investment and is flourishing greatly (McKelvey, 1982).

Researchers largely believe that culture is particularly difficult to copy or duplicate (Fitzgerald, 1988; Meek, 1988; Mueller, 1996, Lismen et al., 2004) because of its inbuilt "tacitness", "complexity" and "specificity" (Lippman & Rumelt, 1982; Barley, 1983; Gregory 1983; Meek, 1988; Reed & DeFillippi, 1990; Fiol, 1991). According to Reed and DeFillippi (1990), tacitness, complexity and specificity are the integral components of firm's competency which result in generating "causal ambiguity". Tacitness means learning by doing which ultimately results in inimitability of the competency and makes it difficult for competitors to copy. Complexity refers to the fact of using all resources in an integrated manner so that competitive firms are unable to duplicate the practices. "Specificity arises from close symbiosis in the exchange relationships of a firm's transactions, so that competencies are too transaction-specific for a firm's rival to copy" (Fiol, 1991, p. 193). Reed and Defillippi (1990) contend that these three characteristics of competency result in creating SCA for the firm by giving rise to causal ambiguity which ultimately creates barrier to imitation. Authors also argued that in order to sustain the advantage, firms must continuously reinvest in causal ambiguous characteristics.

The concept of competitive advantage was introduced by Chamberlin (1933) and then Sleznick (1957) contributed by connecting competitive advantage with competency. Hofer and Schendel (1978, p. 25) defined competitive advantage as "the unique position an organization develops vis-à-vis its competitors through its patterns of resource deployments." According to this definition, competitive advantage arises from competencies and competitive advantage can be used in parallel with firm' strategy. However Day (1984) and Porter (1985) took competitive advantage as the objective of the

strategy, which means that superior performance is linked with competitive advantage and gaining competitive advantage will result in superior performance of the firm. Porter (1985, p. 20) suggested that advantage becomes sustainable when "advantage resists erosion by competitors" that is it becomes difficult for competitors to imitate the processes. It should be noticed that effective barrier to imitation is achieved when competitors are unable to comprehend the competencies which is a source of competitive advantage. Lippmann and Rumelt (1982, p. 420) defined causal ambiguity as "ambiguity as to what factors are responsible for superior (or inferior) performance acts as a powerful block on imitation....basic ambiguity concerning the nature of causal connections between actions and results" (p. 420). Main concern here is that managers should be able to understand the causal ambiguity effectively so that competencies can be manipulated to generate advantage.

MANAGING HUMAN RESOURCE TO ACHIEVE SCA

The Resource Based View supports the contribution of human resource systems in achieving SCA through retaining and development of competencies that are the part and parcel of firm's unique history, produce tacit organizational knowledge and create multifaceted social relationships (Reed & DeFillippi, 1990; Barney, 1992; Wright & McMahan, 1992). Researchers following the behavioral psychology perspective are of the view that there exists a strong link between human resource management practices and SCA (Schuler & MacMillan, 1984; Schuler & Jackson, 1987). Pringle and Kroll (1992) argued that SCA in rapidly changing environment is achieved through intangible knowledge based-resources i.e. "People". Emphasizing the significance of people-related competencies, Youndt et al. (1996, p. 839) stated that "people may be the ultimate source of sustained advantage since traditional sources related to market, financial capital and scale economies have been weakened by globalization and other economic changes." In addition, it becomes clear that the purpose of Human resource management capability is to attract, retain, motivate, develop and use human capital in accordance with firm's strategy, so that SCA is accomplished (Coff, 1994; Kamoche, 1996; Mueller, 1996; Lismen et al., 2004).

In literature, the phenomenon of Managing Human Capital in order to achieve SCA is studied through two-forked track (Lismen et al., 2004). One track discusses Human capital itself and the other track follows the capability of managing human capital (Wright & McMahan, 1992; Pfeffer, 1995; Mueller 1996). Some researchers tested the concept of human capital against resource-based view of the firm and suggested that Human capital itself acts as the source of SCA (Wright & McMahan, 1992; Wright et al., 1994). They

emancipated that employees, at various level of the firm, create resource pool in order to achieve SCA. On the other hand, Schuler and MacMillan (1984), Ulrich (1991), Pfeffer (1995), Kamoche (1996), Mueller (1996) and Coff (1997) emphasized the "**capacity** to manage human capital" as a source of SCA. This view suggests that "capacity to manage capital is path dependent, socially complex and causally ambiguous properties of knowledge and relationship dynamics embedded in human capital, rather than the capital itself, that creates firm's sustained advantage" (Lisman et al., 2004, p. 19).

Flamholtz and Lacey (1981), McKelvey (1983) and Lisman et al. (2004) considered **Knowledge, Skills and Abilities** intrinsic to the people that serve the organization as a competency which resultantly produce SCA. Wright and Snell (1991) presented a model based on Human resource system which explicitly stated that Knowledge, Skills and Abilities are essential but not enough for desirable employees' organizational behavior. However Schuler and Jackson (1987, p. 208) took an opposite stance by stating that "the rationale developed is based on what is needed for employees apart from the specific technical knowledge, skills and abilities (KSAs) required to perform a specific task".

In order for an organizational resource, particularly Human resource, it must add value to the firms, it must be rare, inimitable and non-substitutable (Barney, 1991). Steffy and Maurer (1988) discussed the Firm Specific Human Capital Theory given by (Hashimoto, 1981; Mangan, 1983) to study the conditions under which human capital can be considered as valuable or invaluable. This theory suggests, when both demand and supply of labor is "homogenous", then individual contribution to firm is invariable which means that investing in human capital will not add value to the firms. On the contrary, when both demand and supply of labor is "heterogeneous", then there is significant difference in individual's contribution to firms and thus in this situation, human capital creates value for firm. Extensive work has been done in order to create the theoretical and rational background of the phenomenon that human capital adds to the firm value (Schmidt et al., 1979; Boudreau, 1983; Boudreau & Berger, 1983; Cascio & Ramos, 1986; Cronshaw & Alexander, 1986).

Campion (1988) argued that scientific management, the concept initiated by Fredrick Taylor in 1911, demanded simplified jobs which required little or no preliminary skills. This thought gave rise to see human capital as commodity rather than a rare resource. However, in order to demonstrate that human capital is a rare resource, characteristics like cognitive ability (Schmidt et al., 1979), knowledge, experience etc should be taken into account.

Human capital as inimitable resource is explained in the light of concepts such as Unique historical backgrounds, causal ambiguity and social complexity (Dierickx & Cool, 1989; Reed & DeFillippi, 1990, Barney, 1991, Lismen et al., 2004). A firm's unique position is determined by historical conditions (Barney, 1991) and also the ability of firm to obtain and utilize specific resources depend upon its unique history. The role of causal ambiguity becomes substantial when the perplex link between firm's resources and SCA is incorrectly understood (Reed & DeFillippi, 1990). Social complexity talks about the social phenomenon that is prevalent in organization's micro and macro environments and thus the competitive edge that is attained through complex social processes is inimitable.

Finally, human capital pursue the criteria of SCA only if is non-substitutable. Providentially, human resource is one of those resources that do not become obsolete and are not readily transferable (Lismen et al., 2004). If firm acquires individual with unique cognitive abilities, exceptional knowledge, special skills and prolific experience, then it is not possible for competing firms to copy this intangible asset.

DISCUSSION

Strategy researchers strongly posit that organizational culture is a rent-yielding resource creating SCA (Barney, 1986a; Schoemaker, 1990; Fiol, 1991; Lado & Wilson, 1994). In addition, organization culture lessens the ambiguity and uncertainty central to firm's strategic decisions and thus enhances a firm's profitability (Jones, 1983; Wilkins & Ouchi, 1983). Moreover, organizational culture also helps in reducing the transaction costs involved in managing human resource by working on a set of implied rules and values that serve the purpose of unifying and regulating the behaviors and actions of employees (Williamson, 1981; Camerer & Vepsalainen, 1988). Barney (1986a, 1992) contends that few of the organizational cultures can be treated as the source of SCA because they possess the characteristics like: valuable, rare, inimitable and non-substitutable. Such firms should try to understand what is unique and rare about their culture which is giving them a competitive advantage over the competing firms and then foster and strengthen these cultural elements in order to generate superior financial returns. It is consistent with the view of Peters and Waterman (1982), who suggested that firms should "stick to their knitting". It should be noted that if firms try to modify their culture, then this modification will generate only the normal returns in the long run. Smirich (1983) argued that culture can be a source of superior financial performance only when it is not readily accessible for manipulations.

Researchers also asserted that culture is one of those traits that distinguish one organization from another (Alchian, 1950; Alchian & Demsetz, 1972) and it is this difference which results in achieving SCA (Chamberlin, 1933). Meek (1988) stated that management or any other potential group in an organization cannot manipulate the culture as a whole. Culture is not a static entity. It is continuously changing, as the organization changes, environment changes and so on. So in order to manipulate the culture, mission statements, ethos and logos are changed broadly. If culture is the end product of social interaction of organizational members, then management should try to manipulate organizational symbols, myths and logos in relation to whole organizational culture, of which management is just a fraction. Anthropologists view culture as an artifact that is shaped by shared meanings and symbols resulted from social interaction. In order to see the culture as an exogenous element of organization, it should be interpreted using the deeply embedded meanings and contextual richness of social life of all the members. If culture is assumed to be rooted in social interactions i.e. it is socially created and recreated over a period of time, that influences people's behavior through the use of language, technology, rules and regulations, knowledge and ideas, then it results in creating causal ambiguity which is difficult to interpret and understand apparently, until and unless any one challenges the underlying assumptions.

In the same context, organization's HR system can be considered as a pool of firm specific knowledge, skills, abilities, relationships and work related values of the employees which is identified as "organizational capital" by researchers (Prescott & Visscher, 1980; Tomer, 1987). They further discussed organizational capital in the light of firm specific technology, structure and processes and emphasized that this organizational capital is embedded in unique history of organization and is developed through social interaction of employees over the period of time. In the long run, this knowledge which is valuable, rare, inimitable and non-substitutable, facilitates the members of firm to attract, develop and retain the employees that help in gaining and retaining SCA. Although the human resources can be a potential source of SCA, because they meet the criteria of being valuable, rare, inimitable and non-substitutable, yet competing firms cannot replicate them because of hidden causal ambiguity, social complexity and unique historical backgrounds. The resource-based view of firm considers the human resources as an integral part of firm's strategy and an organizational capital that serves to achieve SCA.

FUTURE IMPLICATIONS

This paper attempted to discuss the organizational culture and human resource in order to achieve Sustainable Competitive advantage. Both these concepts were discussed using the resource-based view of the firms. It has been stated that both culture and human capital is a critical competitive resource, still the notion of causal ambiguity introduced by Reed and DeFillippi (1990) makes it difficult to interpret. This factor opens up a multitude of research streams that tackle to solve the problem of cognitive processes, underlying values, assumptions, knowledge management processes and human resource management skills which play critical role in achieving, sustaining and renewing the competitive edge. Competitive advantage for firms can also be explored in terms of unique identity, values, contextual beliefs language, cognitive patterns, innovative ideas and behaviors in addition to an overall cultural and HR system. Although HR system has achieve an empirical approach with respect to theory building and theory validating research paradigm, organizational culture is still a vague and intangible sort of concept that encompasses numerous constructs that need to be validated and researched using the empirical methods.

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