The True Resource in Strategic Human Resource Management: Insights From the Asia Pacific Region

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The True Resource in Strategic Human Resource Management: Insights From the Asia Pacific Region

Abstract
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Keywords
employee, human resource, practices, firm, performance, SHRM, HR, resource, organization, Asia Pacific

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This paper has not undergone formal review or approval of the faculty of the ILR School. It is intended to make results of Center research available to others interested in preliminary form to encourage discussion and suggestions.
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ABSTRACT

A debate exists in the human resource management literature about which is the true resource: HR practices or human resource capabilities. This study addresses this debate. Semi-structured interviews and qualitative data analysis techniques were used to document human resource (HR) managers’ perceptions of future organizational and people needs for their organizations. Results indicate that HR capabilities are key to these organizations. Development of core competencies, agile organizations, and effective management of human resources will be key to effectively responding to future business needs. Results also indicate the lingering effects of the Asian financial crisis and competition from local and global competitors will affect organizational and people management in the years to come. These findings inform practitioners and shed light on the application of the Resource Based View of the firm to the study of human resource management.
INTRODUCTION

The ultimate goal of organizations is the search for organizational rents (Amit & Schoemaker, 1993). The Resource Based View (RBV) of the firm seeks to explain the variance in rents attained by firms by focusing on the different sets of organizational resources acquired as a source of those rents.

Traditional models of competitive advantage, such as Porter’s ‘five-forces’ framework which take a product market perspective, state that the identification and/or neutralization of external environmental threats and opportunities will lead to higher firm performance (Porter, 1980; Barney, 1991). These models assume that firms within an industry or strategic group are identical in the strategic resources that they control and the strategies that they pursue. If for some reason resource heterogeneity does occur, it will be quickly eroded as resources are highly mobile. These models take an "outside-in" perspective where "outside" environmental factors solely affect the internal operations of the firm.

On the other hand, the RBV takes an "inside-out" perspective where the distinct characteristics of resources internal or "inside" the firm and resource market imperfections lead to firm heterogeneity and organizational rents (Oliver, 1997). The RBV focuses on the rents accruing to the owners of scarce firm-specific resources rather than the economic profits from product market positioning (Teece, Pisano, & Shuen, 1997:513). The RBV suggests that firms obtain competitive advantage by implementing strategies that exploit their internal strengths through responding to environmental opportunities, while neutralizing external threats and avoiding internal weaknesses (Barney 1991:99).

This paper will first examine what executives of organizations operating in the Asia-Pacific region see as the organizational resources that must be developed for the competitive advantage of their companies.
SHRM AND THE RESOURCE BASED VIEW OF THE FIRM

The Resource Based View of the firm is a theoretical paradigm originating in the field of strategic management useful for understanding the contributions of firm specific assets to firm performance and the role managers can play in creating and deploying these resources (Barney 1991: 1997). The domain of strategic human resource management is a set of theories that attempts to understand the role of the firm’s pool of human capital and the mechanisms by which the human capital pool is acquired and deployed in achieving sustained economic performance (Boxall, 1996).

Contrary to traditional models of strategy, the RBV assumes that resources and attributes of the firm are more important to sustained competitive advantage than industry structure and competitors’ actions (Barney, 1997). Resources have been defined as “the tangible and intangible assets a firm uses to choose and implement its strategies” (Barney, 2001: 54). This broad definition includes human, organizational, financial, and physical resources. Barney (1991) and others (Teece, et al, 1997) have outlined a framework for determining if a resource can be considered a source of sustained competitive advantage. The key elements of this framework require resources to create value, be rare, imperfectly imitable, and be embedded in an organizational context to maximize its value.

Human resources are defined as the “pool of human capital under the firm’s control in a direct employment relationship” (Wright, McMahan & McWilliams, 1994). In the field of HRM, the organization’s human capital pool is generally considered to be the primary source of sustained competitive advantage. However, SHRM scholars generally disagree whether HR practices (Huselid, 1995; Schuler & MacMillan, 1984) or human resource capability (Ulrich & Lake, 1990) should be considered a “resource” under the resource-based paradigm. HR capability can be defined as routines embedded in the tacit and implicit knowledge of organization members functioning to acquire, develop, nurture, deploy, and redeploy human resources in a dynamic, competitive environment (Boxall, 1998; Kamoche, 1996; Teece, et al.,...
1997; Ulrich & Lake, 1990). Human resource practices, especially when combined into bundles and matched to business strategy could be argued to meet the above definition of a resource (MacDuffie, 1995; Arthur, 1992). Conversely, a strong argument can be made that HR capability is a resource as it is embedded in the collective knowledge of firm members (inimitable), is developed over time (rare), and valuable as the firm’s routines for managing people can direct employees talents and behaviors to meet objectives and create value (Wright, et al., 1994).

The RBV argues that resources are what are important for firm performance. But though competitive resources are important, without proper implementation or utilization, these resources may not result in competitive advantage. For example, 3M had the technology for creating adhesives that could be easily removed from material on which it was applied but until they combined this technology with small pads of paper to create Post-It Notes, this technology was not adding to the profitability of the organization. Either HR practices or HR capability are the key levers for creating firm value with human capital. By examining the link between HR and firm performance (Huselid, 1995; Huselid, Jackson & Schuler, 1997), previous theoretical and empirical work has only considered HR practices as a potential resource. This paper will consider the possibility that HR capability plays a role in creating sustained competitive advantage and will attempt to shed light on the above debate by systematically analyzing the results of a series of interviews with HR practitioners in the Asia Pacific region. We examine the issues perceived to be important to HR practitioners, how they are responding to these issues, and how they adapt to change. Our study provides insight into the role of HR practices and HR capability as well as a summary of the key issues facing practitioners in the region.

In particular, this study sheds new insights because at the time of the study, participating companies in the Asia Pacific region were reacting to the effects of the Asian financial crisis that hit the region several years earlier in 1997. The Asian miracle that had propelled many of the countries of the region to rapid industrialization and economic growth
took a drastic turn as Asian currencies came under increasing pressure. During the one-year period from December 23, 1996 through December 22, 1997, the South Korean exchange rate dropped 50.7%, the Thailand exchange rate dropped 42.8%, the Malaysian exchange rate dropped 33.6% and the Singaporean exchange rate dropped 16.3% against the US dollar (Pettway, 1999). This sudden souring of the Asian economy came as a surprise to many since for the three previous decades, Indonesia, Korea, Malaysia, and Thailand had an impressive record of economic performance highlighted by fast growth, low inflation, macroeconomic stability, strong fiscal positions, high saving rates, open economies, and thriving export sectors.

Therefore the results of this study will be particularly interesting as executives explain what is the “true resource” for companies operating in the Asia Pacific region in light of the great economic turmoil that these companies are facing.

**METHOD**

**Sample**

The survey was conducted from March through July of 1999. The researchers identified and contacted highly knowledgeable practitioners in the area of HRM from consulting firms and a variety of companies operating in the Asia Pacific region to participate in this study. Thirty-three high level executives from thirty-two different companies operating in China, Hong Kong, Japan, Korea, the Philippines, Singapore, and Thailand participated in the study. Subjects were identified and interviewed or surveyed by two of the authors and two non-author research partners. Of the participants, thirty-one were HR executives, and two were management consultants. Approximately 68.6% of the participants were male, and on average the participants had spent 12.6 years with their firm, and 2.2 years in their present job. Table 1 lists the distribution of country participants.
Table 1
Distribution of Respondents by Country

<table>
<thead>
<tr>
<th>Country</th>
<th># of Participants</th>
<th>% of Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>China/Hong Kong</td>
<td>5</td>
<td>14.3%</td>
</tr>
<tr>
<td>Japan</td>
<td>9</td>
<td>25.7%</td>
</tr>
<tr>
<td>Korea</td>
<td>8</td>
<td>22.9%</td>
</tr>
<tr>
<td>Singapore</td>
<td>10</td>
<td>28.6%</td>
</tr>
<tr>
<td>Philippines</td>
<td>2</td>
<td>5.7%</td>
</tr>
<tr>
<td>Thailand</td>
<td>1</td>
<td>2.9%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>35</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Data Collection

Input from the participants was gathered via personal interviews (either face-to-face or via telephone) or, in some cases open-ended, written questionnaires when personal interviews could not be conducted. Interviewers documented the content of the interviews by taking notes throughout the session. The information was summarized into a standard interview content sheet. Multiple responses were allowed for each question. Each response was documented separately. Respondents providing information via written surveys indicated their responses on a sheet similar to the interview content sheet. The written surveys were translated into the national language of the respondent before the surveys were administered whenever necessary. The surveys were initially translated from the English version and then back-translated into English by two qualified individuals to ensure the accuracy of the translations. The responses to the written surveys were then summarized by one of the authors into the format used in the face-to-face interviews. (In the cases where the responses were not provided in English, the responses were translated into English by the researchers before proceeding with further data analysis.)

The interviews sought to explore what HR executives and consultants perceived to be the critical success factors for their organizations in the future environment in which their
companies must operate. The research design assumes that environmental trends have implications for organizational capabilities and people issues. The HR function needs to play an integral role in responding to these environmental issues by facilitating the building of appropriate organizational capabilities, and by delivering effective solutions to the corresponding people issues. Thus the interviewers posed three basic questions to study participants:

1. As you look over the next 3-5 years, what are the three major trends or issues in the external environment that will have the greatest impact on your firm?
2. Looking within your firm, what are the three most important organizational capabilities/critical success factors that your firm needs to develop and/or maintain in order to respond to these trends?
3. What are the people issues that are most critical to the maintenance/development of these capabilities/critical success factors?

Data Analysis

Standard grounded theory analytic techniques were used to summarize the content of the interview sheets (Strauss & Corbin, 1990). First, each response to each question was printed on a separate slip of paper with a code identifying the case ID of the respondent. For example, a respondent from Japan might have identified three different trends in the external environment that will affect his/her firm. This would have generated three slips of paper with the same ID code. Starting with the first question, all the response slips were mixed together in one pile. One of the authors sorted the responses into smaller piles based on similarity of content. Piles were sometimes merged into larger groupings or broken into two or more distinct groupings. After the piles were sorted into different categories by content, another author reviewed the clusters for appropriateness. There was disagreement with fewer then 2% of all
responses that were resolved through negotiation. The ID codes for each category pile was recorded, entered into a spreadsheet, and summary statistics calculated. This process was repeated for all three open ended questions.

RESULTS

Future Environmental Trends and Issues

The predominant environmental trend/issue identified by 62.8% of the participants was the domestic and global economic situation. Of the respondents mentioning economic issues, over half (56%) mentioned the economic slowdown associated with the Asian economic situation. Participants seemed to be concerned with the economic reforms and retrenchment that typically follow regional economic crises. Many pointed to the “current economic situation in Asia” and the “inactivity of the domestic market after IMF1.” The economic slowdown has led to a drastic decrease in the demand for exports by countries in the region. Further decreases in demand by manufacturers and consumers are expected as they continue to cut back on spending to stay financially afloat. The increasing number of bankruptcies of businesses is also causing a chain effect of decreasing sales, production, and increasing unemployment (Business Week, 1998). Surprisingly, some respondents predicted economic opportunities rather than crises. Approximately 10% of respondents mentioning economic issues forecasted the resurgence of the region’s economy and the need to prepare for the increased business opportunities that will occur as a result of the economic upturn. Executives with a more positive perspective look forward to “increased business opportunities through the revival of the economy.” These opportunities may occur as a result of a change in demand through the increased globalization of domestic markets, and expansion into areas made vacant by businesses that have left these markets. Companies that survive the economic downturn may be in the best position to rebuild and expand during economic recovery.

1 “IMF” refers to the bailout loans provided by the International Monetary Fund. Countries receiving loans must implement a great deal of economic restructuring as a pre-condition for receiving IMF loans.
The second most commonly mentioned environmental trend was the increase in technological advances, such as the use of information or telecommunications technology. 48.6% of HR executives interviewed pointed to the growth of electronic commerce, information technology, and the need for knowledge management as a result of the increasing free-flow of information in the business environment. Issues of concern revolved around changes in new technology and new business opportunities created as a result of new technologies. For instance, the internet provides an instant global network for businesses to expand and has made information freely available. A Japanese executive stated that the “advancement of information/computer technology requires of us more quick decision making to maintain our competitiveness.”

The concern over globalization was cited by 42.6% of respondents. HR executives were concerned with global networks, alliances, mergers and acquisitions, and the opening of global markets. The “mobility of people”, global financial conditions, and the internet have lowered barriers to international markets making business possibilities endless. Organizations must adjust to the changing scope of business by focusing on the “borderless operation of business” and the need to make “effective cross-country teams/networks to meet more complex market needs.” People must be developed to effectively cope with and take advantage of the opportunities.

With the increase in the scope of the market comes an increase in competitive pressures from all parts of the world. Almost half (45.7%) of the respondents specifically pointed to competition (other than globalization) as an external factor that their business will continue to face in the future. Countries such as Korea, the Philippines, and Thailand (those hit hardest by the Asian crisis) saw mergers and acquisitions, corporate restructuring, the “entry of new players into the market” and the need to maintain low costs and high quality as factors affecting competition. Executives in China tended to point to changes in competition due to economic reforms and regulations rather than the global economic situation as they face more
internal pressures to change their economy and business. In particular, they pointed to industry
regulations, deregulation, and the inconsistency of government policies as a problem that they
will be facing. As China continues to progress from a planned economy to an open economy,
fluctuations in regulations will continue as the government struggles to deal with the new
economic challenges.

Another environmental pressure discussed by HR executives in Singapore and South
Korea was the changing labor market and the competition for and the retention of the best
people. Participants from Singapore overwhelmingly (67%) pointed to skill shortages as an
important external factor. The executives cited “competition for world class, self-motivated
people” and the “retention of high quality staff.” This is not surprising, as the number of
positions open for qualified managers in Singapore far exceeds the number of qualified
managers to fill these positions.

HR executives in Singapore and Korea also pointed to changes in the labor market as
seen in the “changing mentality of the workforce” and the increase in the use of outsourcing.
This reflects the growing change in the psychological employment contract and increased
flexibility of the labor market. The philosophy of “life-time employment” where employees
remain loyal to a company and are employed by the same company until retirement has slowly
been changing in Korea and has been greatly accelerated by the large number of layoffs that
occurred as a result of the Asian crisis (Song, 1997; Yoo, 1997).

Organizational Capabilities Organizations Need to Develop/Maintain

The dominant response to the question of what organizational capabilities are needed to
achieve competitive advantage in the next three to five years was the effective management of
human assets, cited by 60% of respondents. Foremost in importance was the development
and retention of high potential employees, strengthening leadership and management abilities,
and sustaining performance through people strategies. Executives in Japan emphasized the
“identification and development of competencies to meet diverse business needs” and the retention of high potential employees. Executives in Korea emphasized the “development of human resources and core competencies.” Executives in Singapore emphasized skills/leadership acquisition and retention, along with people strategies and programs such as pay for performance programs, communication, and diversity. Executives in China emphasized the need for mature individuals with managerial and technical skills to fill upper level jobs.

This is not a surprising response from Chinese executives as China continues to suffer from the lack of an adequate managerial talent pool. The lack of suitably qualified or skilled personnel in the PRC continues to be a prime problem faced by many firms. The Cultural Revolution, which demeaned and derogated formal university education, has led to the current lack of qualified candidates for middle-management positions (Tsang, 1994). This labor market condition has incapacitated organizations’ efforts at matching current staff with strategic business needs (Mitsuhashi, Park, Wright, & Chua, 2000). Executives of multinational corporations in Singapore and China stated the need to develop local talent for positions of leadership.

In response to the increased competition, identified as an external environmental factor, 31.4% of respondents indicated the need for competencies in product development, sales, and marketing. The ability to identify new business markets and remain competitive in the global market through the development of superior products and cutting-edge marketing is critical to keeping ahead of the competition. Executives in Korea emphasized the need to produce high quality products, improve production efficiency, and increase technological competitiveness. Executives from the remaining countries were concerned with maintaining and expanding their markets. Executives are looking outside of their departments or functions to determine what the true organizational needs are and what they can do to support these needs. These HR executives realize that business thinking and working closely with line managers is more critical than ever for business success.
Agility, flexibility and speed within the organization were identified as a necessary competency to deal with competition (34.3%). One executive pointed to the need for his organization to “morph”. These competencies are necessary for continuous innovation and to quickly handle changes and challenges in the business environment identified through increased “marketplace awareness”. A “better assessment of organizational capabilities” and organizational restructuring would allow the organization to meet changes in the environment.

Finally, executives in China and Singapore pointed to the need to balance corporate and local culture. This is particularly true in these countries where there is a large presence of multinational corporations whose operations consist of expatriate executives managing local employees. In these cases, maintaining the balance between embedding the corporate culture and integrating local culture is a task that executives, particularly HR executives, must deal with on a daily basis (Chua, 1997).

People Issues Most Critical to the Development/Maintenance of Organizational Capabilities

Looking more closely at the people issues that companies will face in the future, HR executives indicated the need to increase the quality of their internal talent pools. First, respondents noted the importance of possessing a high-quality pool of human talent. The need for continual learning and development of core employees’ skills and competencies was an issue noted by almost one-half (48.6%) of the respondents. The learning and development required in today’s business environment consists of more than the simple acquisition of skills in a formalized training environment, but rather the continual acquisition of core knowledge from work processes, training/educational opportunities, colleagues, and customers. Thus, respondents discussed the need for learning, flexibility, adaptability and the “enhancing of competencies that the company needs to bring it forward.”
Supporting the need to develop higher quality human capital pools, 45.7% of the respondents indicated that they needed to improve the tools to make this happen. These respondents noted the need to develop mechanisms to attract, select, and retain high performers in the years ahead. Executives stated that the “retention of key players”, “recruiting excellent human resources” and “flexibility, adaptability, and learning” was an important people issue. Again, these issues draw attention to the need to support identified business needs with effecting human resource practices.

The development of the leadership talent pool, mentioned by 22.9% of the respondents, focuses attention on the attraction, selection, retention, and the learning and development of people who comprise the next generation of leaders of the firm. The development of a leadership pipeline is needed to focus on new markets and to drive company culture. The emphasis on training and development and selection and retention is not surprising as countries, such as China, continue to face a shortage of a skilled labor force and countries where multinational corporations are prevalent, such as Singapore, face a lack of executives who can manage in such business environments.

Second, the respondents described issues focusing on mobilizing human talent to act in the firm’s interests. 25.7% of executives stated the need for development of appropriate performance management and compensation programs to “upgrade staff and managers and weed out weak performers.” The establishment of a performance oriented appraisal and compensation system is a natural tie to the development and retention of core employees. For example, many Korean companies are beginning to shift away from the seniority-based pay system where very little variance in pay exists to a merit-based pay system where compensation is based on ability and performance. This shift will open the door for greater variance in pay and increase competition in the labor market for employees to obtain the high paying jobs and for employers to recruit the most qualified people.
The development of a high commitment work environment was emphasized by executives from China. Of the 25.7% of executives that indicated the need for a highly committed workforce, 55.6% were Chinese HR executives. Due to changes in the Chinese economy and politics, employees have more opportunities and greater freedom to pursue various opportunities. This has resulted in a change in the “employment contract” where commitment and loyalty to the company is no longer a given. Recognizing these trends, a few executives from China and Singapore mentioned developing an open and trusting culture with employees as a means of increasing employee commitment. This is consistent with research that has found that creating an environment of trust and open communication will lead to a more committed workforce (MacDuffie, 1995). In sum, the respondents recognize that having the most talented group of individuals in the world results in a source of competitive advantage only if the firm successfully mobilizes, energizes and aligns the group’s efforts toward the achievement of organizational goals (Wright et al., 1999:23).

CONCLUSION

At one level, these findings provide Asian Pacific academics and HR practitioners with a view of the challenges and opportunities for the HR function as perceived by top HR executives from the region. On a second level, these findings inform the debate of what constitutes the “true” resource under the Resource Based View of the firm. Respondents emphasized the increasingly dynamic and unpredictably nature of global competition for customers and the state of the regional economy as critical environmental trends that will impact organizations. The centrality of people as a source of sustainable competitive advantage, leading to the need to manage and develop human assets, was also emphasized. The ability to attract, select, develop, motivate, and retain valued employees will be more critical for firm success. Changing conditions in the product and financial markets will require balancing the stability needs of employees with the pressure to make the employment relationship more market oriented.
The primary conclusion regarding the RBV debate that can be drawn from these interviews is that HR capabilities better fit the definition of a “resource” than HR practices. First, as should be clear from both the definition of a capability and from the information provided by the respondents, a firm’s set of human resource practices result from the organizations’ routines, beliefs, and traditions of how people are most effectively managed. Second, the dynamic environment described by these respondents suggests that static assets like bundles of HR practices or pools of human capital cannot produce sustained competitive advantage. Because firms must adjust to economic upheaval, technological changes, globalization, and increased competition, they must adjust their practices and reconfigure their collection of skills to meet changing needs. HR capability allows the firm to make these necessary adjustments.

PRACTICAL IMPLICATIONS

Ulrich (1997) suggests HR capability begins with the realization that human capital can be used to gain competitive advantage. A first step for Asian Pacific practitioners is to communicate this message both to the top management team, middle managers, and front line employees. Second, the HR executive must continually develop knowledge of internal and environmental issues that affect the firm’s ability to provide value for customers. Thirdly, the HR executive must develop an understanding and ability to influence the organizational routines to manage the contributions of people. This begins with an understanding that employees are managed throughout the entire organization not just by the HR function. Finally they must work to match the human resource management practices to the business needs of the organization (Wright, Mitsuhashi, & Chua, 1998; Ulrich, 1997).

The information gathered from Asian Pacific Human Resource managers suggests AP firms face tremendous economic and competitive changes and pressures. Firms with greater HR capability embedded into the broader organization will adapt, thrive, and achieve competitive advantage relative to rivals.
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