Management of Human Resources as a Competitive Advantage

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Abstract: This work intends to serve as contribution to the knowledge of how Human Resource Management (HRM) can generate a competitive advantage for the organizations. The quantitative research used the statistical analysis, through the simple correlation of the Indexes of Happiness with Work (IHW), as well as the subitems that compose it, the Index of the Personnel Management Quality (IPMQ) and the Index of Quality of Work Environment (IQWE) with net profit/Earnings Before Interest, Tax, Depreciation and Amortization (EBITDA)/Sales growth (%) of the best and largest companies in Brazil. The research results showed a weak correlation between these indexes. However, it was possible to identify that internal communication and employee participation/autonomy are the Human Resource Management Practices (HRMP) that demonstrate some kind of impact on sales growth. This research was limited to analyzing the historical series from 2013 to 2016 of the yearbooks published by the magazines Exame Best and largest companies and the 150 best companies to work for - Voce S/A, both carried out by the Abril publishing house. The results identified through this study will serve as a contribution to companies to develop initiatives aimed at improving their sales and thus generate a competitive advantage. For people, for demonstrating their importance in companies and to the academia, when it makes possible the questioning and development of future studies on this topic which need to be addressed.

Keywords: HRM, Competitive advantage, Net profit/EBITDA/Sales growth

INTRODUCTION

From support to strategic area, the companies departments responsible for managing people had its function significantly changed. Initially, the companies Human Resources (HR) department was only a management support area, however, in the last decades, its attributions became more and more relevant and aligned within business strategy. Boxall, Purcell, and Wright (2007) define HRM as all activities associated with work management and people at companies and other types of organizations. The HR area has been shown to be strategic, sometimes because people have come to be considered as one of the companies’ most valuable resources (Barney & Wright, 1998), or because they are a kind of special capital (Joia, 2001). Vasconcelos and Cyrino (2000) argue that there is a convergence between the themes of the areas of strategy and organization theory, a movement that has important consequences for HRM and which, as auxiliary element, becomes an explanation of companies success.

In ever-changing markets, to create sustainable competitive advantages, the organization needs to identify its core competencies and tailor its internal processes to facilitate the continued regeneration of its portfolio of resources. Therefore, it is fundamental to develop competencies and align them at all organizational levels, in order to continually innovate organizational practices and processes in order to develop dynamic capacities, which support the need for continuous adaptation of the company in the face of environmental changes, making possible the achievement of sustainable competitive advantages.

Competitive advantage comes from strategic resources developed and controlled by the company, those resources must be valuable, rare, difficult to imitate and irreplaceable (Barney, 2014). Several

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organizational attributes are relevant to the generation and sustainability of the company’s competitive advantage, one of which is HRM.

In line with the theories and structures that link HR practices and organizational performance, there is strong and growing evidence that managerial practices and human resource practices of high performance companies are related to productivity, voluntary turnover, profitability, growth, innovation and high-level enterprise performance (Albrecht, Bakker, Gruman, Macey, & Saks, 2015; Combs, Crook, & Shook, n.d.; Jiang et al., 2012; Silahtaroglu & Vardarler, 2016; Wartika, Surendro, Satramihardja, & Supriana, 2015; Wright, Gardner, Moyihan, & Allen, 2005).

Based on these contributions, raises the need for this study to seek a way to measure the impact of HRM to the point of becoming a competitive advantage and thus contribute to the operating results, sales growth and profit of companies operating in Brazil.

THEORETICAL REFERENCES

This section presents the theoretical basis that served as a guideline for this research and to answer the research question: To what extent can HRM generate a competitive advantage for companies?

For a better understanding of the investigated topic, the main constructs analyzed will be presented.

HRM

Individuals are vital elements in all organizations and play the role of promoting activities that enable achievement of results and achievement of their goals and objectives (Oke, 2016). Thus, the successful management of the human element is the core of resource management. Without effective HR in both the public and private sectors, development will be elusive and organization, in its real sense, will cease to exist.

HRM is a term without a single definition; in the literature refers to an area of study that covers a variety of styles, schools, perspectives, concepts and variables (Boxall et al., 2007). It can be defined as the set of human forces geared to productive, managerial and strategic activities, within an organizational environment (France, 2007). It is possible to conceptualize HR as a set of strategic, integrated and coherent activities of the work, development and well-being of the people in the organizations (Armstrong & Taylor, 2020).

The term HRM began to be used in the 1990s, as competitive pressures and globalization forced organizations to reinvent management of the human element (Lawler III., 1987). In order to explain the success of companies, HRM is considered a fundamental function for understanding and generating higher levels of organizational results (Mascarenhas, 2013; Wasike, 2017).

In order to be increasingly aligned within business strategy, it is up to HRM to stimulate and create conditions to the development of both people and the organization so that both can work in highly competitive environments. Organizations then look at individuals as partners so that the development of one contributes to the development of another.

Companies then invest much time and capital in developing a highly competitive workforce - creating practices that promote, according to Jiang et al. (2012), the motivation favorable to the employee’s contribution to the generation of adequate conditions for the development of resources and capacities that create value for the organizations (Barney, 1991), contributing to their performance and to the emergence of sustainable competitive advantages (Huselid, 1995; Wright, McMahan, & McWilliams, 1994).

In this sense, arises the need to evaluate HRM results, not only of the individual, but of the set of actions that the company performs to value its human capital. Thus, it has been developed a set of analytical measures and methods to describe, predict and evaluate the quality and impact of HRM, initiatives and activities on organizational results (Society for Human Resource Management (SHRM), 2008).

HRMP

The need to adapt to markets new demands imposed, the HRM - that only recruited, hired, resigned and gave off the payroll, in a setting where employees were just another form of resource for the organization, and their welfare was not taken into consideration (Araujo & Garcia, 2009) - to take
on a greater role, as it has to worry about all the factors involving the employee inside and outside the organization, given that all the variables (society, family, education) must be taken into account, since the human being is the result of the society in which he is inserted. Therefore, a holistic view is required for these variables to be understood and worked in the work environment (Ribeiro, 2006).

According Marras (2011) the new functions of HRM are now, in addition to recruitment, selection, dismissal, payroll issuance also the definition of positions and salaries, training, personal development, health and safety labor medicine, department of personnel and labor relations. In this way, HRM must be increasingly able to complete such tasks assigned to it.

HRMP is fundamental to the success of an organization, and may even be the way to generate and maintain its competitive advantage, attracting and retaining workers (Oke, 2016; Pimonratanakan & Pooripakdee, 2017), who must be unique, with competencies difficult to find or imitate by the competition, and practically irreplaceable (Mascarenhas, 2013).

There are a number of terminologies used to identify HRM practices that contribute to positive organizational outcomes, such as “good practices”, “high performance practices” or even “high performance practices” (Esteves & Caetano, 2010).

**Competitive advantage**

To those companies that present superior performance, the existence of a competitive advantage is imputed, that is to say, an above average capacity of generation of its competitors (Peteraf & Barney, 2003; Porter, 1985). Competitive advantage is a latent construct and a logical precedent of superior performance (Powell, 2001), which is why empirical studies are based on the observation of performance variables to measure the competitiveness of companies (Vasconcelos & Cyrino, 2000).

For Barney (1991), the superior economic performance is provided by the competitive advantage obtained due to the heterogeneity and immobility of the organizational resources. Therefore, there is a competitive advantage “when the company has rare and difficult to imitate resources and skills that allow it to offer superior benefits or that bring an advantage in cost” (Mohr, Sengupta, & Slater, 2011).

They analyze the competitive advantage from the point of view of above-average profitability Tang and Tang and Liou (2010), Vasconcelos and Cyrino (2000), and Wiggins and Ruelli (2002). Companies that create value above the average of their industry should present superior results; however, organizational performance can be affected in various forms and dimensions. Some studies use performance indicators defined by variables of profitability and return, seeking to identify their relationship with the competitive advantage presented; however, the need for a greater exploration of this concept is identified (Combs et al., n.d.; Richard, Devinney, Yip, & Johnson, 2009).

The search for the identification of the origins of this differentiation, as well as the questioning about the imposition of the analysis of the industry by other economic currents, along with the questioning of the studies of Penrose (1950) is that they lead to the research of the internal resources of the company of the vision theory Resource-Based Source View (RBV) (Rugman & Verbeke, 2002).

**RBV**

From the 1980s, two lines of strategic studies emerged. The best-known scholar in this area was Porter (Porter, 1980, 1986). His proposition was based on the perspective of competitive forces, introducing the terms “entry barriers”, “exit barriers” and “mobility barriers”, among others that are easier to use in the business environment (Bandeira-de-Mello & Cunha, 2001).

Similarly, using the term “resource position barriers”, the second line of strategic studies is RBV. This perspective postulates that companies achieve superior performance by developing skills and possessing rare, hard-to-imitate and valued resources. This current of thought includes Wernerfelt (1984), Barney (1991), Peteraf and Barney (2003), Teece, Pisano, and Shuen (1997), among others, and is based on the seminal work of Penrose (1959).

Barney (1991) still proposes to classify the resources of a company as financial, physical, human and organizational. According to him, human resources are valuable, rare, inimitable and organizab.
HRM versus competitive advantage

Faced with the new challenges and pressures for HRM, it is expected that it will now be able to demonstrate through models and approaches the impact and contribution generated on the competitiveness and performance of companies (Paauwe, 2004).

Albrecht et al. (2015) argue that employee involvement needs to be integrated within an organization's HRM framework so that it is possible to achieve sustainable competitive advantage. Engagement provides a conceptually well-developed and well-researched strategy by which competitive advantage can be achieved, developed and maintained.

After analyzing the theoretical framework, the importance of the topic is evident, as well as the effort that the researchers are making in order to deepen this discussion. For this reason, this work brings new insight into the subject and stimulates a new research that should respond to the initial objectives proposed, as well as the research question and the hypotheses raised in order to ratify the relevance of this subject to the organizations, academia and people.

METHODOLOGICAL PROCEDURE

The research, of quantitative nature is classified as to its objectives as exploratory. It is characterized by the existence of few available data, which seeks to deepen and investigate ideas and construct hypotheses (Vergara, 2013). The statistical methodology chosen was the simple correlation, which according to Diggle and Ribeiro (2007), serves to analyze the correlation between two quantitative measures. For the development of the proposed objective, we used information contained in two surveys published annually by two magazines, Exame S/A, which generates the survey of the 500 largest and best companies in Brazil considering the financial data, and VOCE S/A, a survey that identify the 150 best companies to work for. The VOCE S/A survey lists the 150 best companies to work for considering the IHW, this index was created by the magazine and consists of two sub-items, the IQWE and Index of Human Resources Management Quality (IHRMQ) that evaluate HRMP. The methodology used was the simple correlation in a longitudinal section, considering the years of 2013 to 2016. This is a limitation of the search since this is the period available digitally of the yearbooks, thus making possible the construction of the database used for the statistical tests.

Simple correlation can reveal whether the values are indeed associated (that is, if the values of one measure tend to grow or decrease as the other grows), one can base a calculation of the value of a variable from the value (to calculate the expected average change of one measure from the known variation of the other).

To implement this methodology, a database was created considering the companies that will appear at the intersection of the two annuals, which resulted in a total of 13,200 variables.

For the past 45 years, Exame magazine has been producing EXAME largest and best companies, with the purpose of presenting those companies that have stood out in the evolution of their business in Brazil. The research seeks to measure the individual performance of companies based on the individual financial statements, published in the diario oficial by May 15 of the year prior to the launch of the survey. The other yearbook used as information base was VOCÊ S/A - The 150 Best Companies to Work For, created in 1997 with the mission to identify the companies that take better care of their employees.

RESULTS

Several static tests were performed considering the simple correlation methodology. Table 1 below shows the result of the statistical analysis that compiles the 4 years analyzed and served to answer the main objective of this research that is to elucidate the research question: To what extent can HRM generate a competitive advantage for companies? And also to the intermediate objectives:

1. Identify which HR management practices contribute to operating results, net profit, EBITDA and sales growth;

2. Develop a way to measure the impact of HRM in obtaining operational results, net profit, EBITDA and growth in sales.
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<td>60'000</td>
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<td>IQWE</td>
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Table 1: Correlation analysis of human resources management practices versus sales, growth in sales, net income, and EBITDA - Period 2013-2016
Table 2: Correlation classification

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<th>Value of $\rho$ (+ ou-) Correlation Classification</th>
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<tr>
<td>0.00 to 0.19  Very Weak</td>
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<tr>
<td>0.20 to 0.39  Weak</td>
</tr>
<tr>
<td>0.40 to 0.69  Moderate</td>
</tr>
<tr>
<td>0.70 to 0.89  Strong</td>
</tr>
<tr>
<td>0.90 to 1.00  Very Strong</td>
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The statistical tests presented in the year-to-year analyzes showed a correlation between very weak and weak, and it is not possible to conclude the objectives of this research. However, when the four years were tested in an associated way (table above), it was possible to identify which items in HRMP have a greater contribution in the operating/financial results, net profit, EBITDA and sales growth.

Analyzing the results of the statistical tests in Table 1, it was possible to perceive in the IQAT a moderate correlation (0.40) in the participation/autonomy and internal communication rates on sales growth (%). The IQAT represents the employee’s view of the company, so the relevance of this identification must be considered. The result of all the statistical work was in some ways not satisfactory, however it creates new opportunities for investigation and criticism of the proposed model.

CONCLUSION

This research aimed to identify the extent to which HRM can generate a competitive advantage for companies, as well as to identify which HR management practices contribute to the operational/financial result (net profit, EBITDA, growth in sales %), and, finally, to develop a way to measure the impact of HRM on it.

Elucidating these questions becomes relevant, since organizations nowadays need to prove the impacts of investments made in the area of HRM, which have been increasing considerably year after year, as well as to approach theories and practices of HR management, excluding from this discussion the subjective character of this organizational function.

The initial idea was to use RBV theory to explain the impact of HRM on the company’s operational/financial results to the point that it becomes a competitive advantage. However, throughout the development of this study, it was perceived that the operational/financial results, as well as the people’s own performance depend and suffer from external impacts to the firm. In this way, it was necessary to consider other strategic theories that contribute to a complementary vision, that is, internal and external environments. For this purpose, a review was done on articles, researches and books of the main constructs addressed in this research. This survey served as a foundation for the research as well as for the methodology chosen.

The study used the statistical analysis of the available historical series of indicators that are considered for the formation of the IHW, index created by the VOCE S/A magazine in 1997 and correlated them with the operational/financial performance measures (net profit/EBITDA and sales growth) of the 500 biggest and best companies in Brazil, seeking to identify which ones contribute most to sales growth and other operating/financial results. In this aspect, a moderate correlation was found in the participation/autonomy and internal communication rates pointed out by the employees themselves in relation to the % of sales growth.

In this scenario, it is evident that, despite the good management of HR and the existence of profit in the companies analyzed, their correlation is low and it is not possible to measure the impact of one in the other. This fact gives rise to disappointment about the results, since the expectation was to find a great correlation between the IHW and the operational/financial results of the analyzed companies. On the other hand, leaving disappointment aside, there is opportunity and a starting point for further research and some insights that may help in the next studies on this important and current subject.

The identification that employee participation/autonomy as well as internal communication impacts sales growth, corroborates the explanation of Albrecht et al. (2015) that there are a number of well-developed theoretical frameworks that demonstrate how HRM, which supports and develops skills and
employee motivation, impacts the increased productivity, creativity, and effort that will result in better performance, profit and growth. In this way, companies can be generally recommended to invest in these two practices, thus aligning the strategy of Human Resources Management with the company’s results objectives; with this alignment and follow-up there may be an identification and perhaps measurement of the impact of one on the other.

The search for the metrication of the HRM contribution to the point of generating a competitive advantage was not possible to be achieved by the present investigation. It can be seen that this objective is not a simple task, mainly due to the methodological limit of this research, which suggests to the next studies, the accomplishment of a multivariate analysis that allows the definition of the factors of influence in the proposed operational / financial indicators for the more accurate analysis. This may be the major limitation of this research; besides the size of the analyzed historical series. These conclusions and insights open the way to new and deeper studies on this subject.

REFERENCES


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