

# Features of Resource Based View Theory: An Effective Strategy in Outsourcing

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**Abstract:** In Resource Based viewpoint theory (RBV), the resources possessed by a firm are the primary determinants of its performance. The resources may remain latent until the firm deploy its capabilities, with these may contribute to a sustainable competitive advantage. RBV in Human resource management aims in providing justification for attaching importance to especially talent management and aid in enhancing the value of the HR contribution in achieving competitive advantage by strategically fitting and bundling as HR best practices. Outsourcing is built from an organization that lacks Valuable, Rare, Inimitable, Organized resources and capabilities thus seeks for an external provider in order to overcome that weakness. In outsourcing, Firm's performance in the marketplace depends on the different characteristics of the industry in which it compete and through innovation, persistent improvement and management of relationship with external entities may lead to sustain competitive advantage and be above average performance.

**Keywords:** Outsourcing, Competitive advantage and Resource based view theory.

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## 1. INTRODUCTION

Outsourcing is a tool that enables organizations to leverage value from virtually anywhere in the world. Although outsourcing is a popular topic in many academic articles, a clear definition of outsourcing is rarely given. [11] defines and explain Outsourcing or contracting out, as it deals with the delegation of operations from internal production to an external party, or parties. In order to deliver a quality and stable service, the provider must have a service methodology, the needed infrastructure, people, and skills, technology, and metrics capabilities.

Scope of outsourcing varies greatly. Recent trends in outsourcing have been toward services that are more complex and to those services that are more near to central management functions, most importantly IT. Outsourcing is an increasingly popular method of achieving performance improvement [6].

Outsourcing has been guided by a number of theoretical perspectives from economics, strategy, and sociology and systems science. According to [19] and [5] theories from economics include: Transaction Cost Economics, Agency Theory theories on contracting where the agent's base outsourcing decisions and engage in contracts to minimize total costs and to mitigate risks.

Theories from strategy as stated in [19] and [5] study include: the Resource-Based View, Resource Dependency Theory and Theories of firm strategy where agents build or acquire resources to execute strategies that lead to "winning". Theories from sociology include: Social Exchange Theory, Social Capital which focuses on relationships among agents, including levels of trust and power, feelings of mutual obligation and social norms.

The rationale of cost efficiency for outsourcing motivation leads directly to transaction cost and agent cost theories. [19] study also further defined two types of viewpoints on outsourcing as transaction-based viewpoint and the resource based viewpoint. This paper aim to discuss the aspect Resource based viewpoint as an effective strategy in outsourcing.

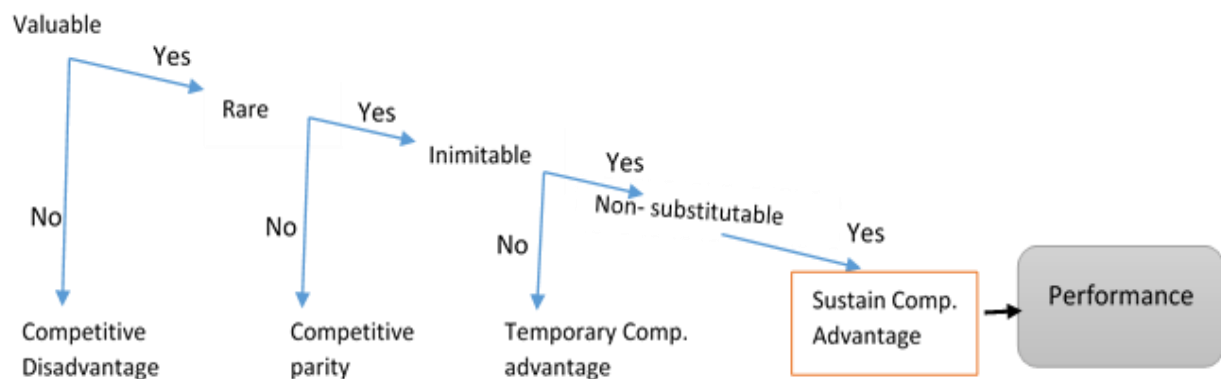
## 2. FEATURE OF RESOURCE BASED VIEWPOINT AS AN EFFECTIVE STRATEGY IN OUTSOURCING

[19] defines Resource based view (RBV) theory as where the outsourcing decision is based on the client company's abilities to invest in internal capabilities and thus sustain competitive advantage. RBV as suggested by [5] deliberate on the resources that are possessed by a firm are the primary determinants of its performance, and may contribute to a sustainable competitive advantage of the firm.

In the early stage of the RBV, the main concern was to identify the characteristics of resources that are not subject to imitation by competitors but [2] argues that even if the resources possessed by a firm can easily be replicated by competitors and even though the resources are the source of competitive advantage of the firm, then the advantage will not last long. Productive activity requires the cooperation and coordination of teams of resources. [4] Explains that the firm capability is the capacity for a team of resources to perform some task or activity and conclude that the firm's resources are the source of a firm's capabilities which are the main source of its competitive advantage.

Cooperation and coordination of teams of resources is required in any productive function or operation in any firm. The firm's resources are the source of a firm's capabilities where firm capability is the capacity for a team of human resources to undertake some task or activity. Grant study defines firm's capabilities as the main source of its competitive advantage among other firms either in the same function or share same market niche.

In this strategic RBV theory according to [19], a firm is viewed as a collection of physical and intangible resources that enable it to compete with other firms. To provide sustained competitive advantage, a resource must have four qualities and RBV compose them as heterogeneous resources, and can be classed as Valuable, Rare, In-imitable, And Non-Substitutable (VRIN). [2] and [16] studies acknowledge a company that possesses VRIN and exploits its capabilities says that will certainly achieve sustainable competitive advantage and above-average performance as shown in figure 1.



Source: Talaja, 2012 and Barney, 1991

Figure 1: Features of RBV and its results.

### 2.1. Value:

[2] study suggests value-creating strategy as possible solution to outperforming competitors or reduce own weaknesses this can be achieved by having a resource that must enable a firm to employ either factors. This factor requires the costs invested in the resource to remain lower than the future rents demanded by the value-creating strategy. He continues to elaborate and seconded by [12] that an attribute creates value and becomes a resource if it enables the exploitation of opportunities and/or the neutralization of threats according to (SWOT) strengths, weaknesses, opportunities and threats analysis.

As [12] concluded in their study that certain resources may have the potential to create valuable services, the value of these services will remain latent until the firm has the capabilities needed to deploy them. This implies that the firm-specific way of cooperation and coordination of resources causes the heterogeneity among firms in an industry, however, the ability to leverage distinctive internal and external competencies relative to environmental situations ultimately affects the performance of the business.

[5] Observed that Barney’s 1991 concept of ‘valuable’ is an ambiguous criterion to measure the competitive advantage of a firm. Whether the resource is valuable or not should be measured by its profitability, and thus it ought to take the form of an economic asset regardless of how tangible or intangible it is. [16] study also conquers and says that company’s asset influences market performance, but not profitability. [6] recommend management of relationship with external entities and accessing its key resources in a way that span that boundaries of the firm as a way of sustaining competitive advantage.

Contribution to the understanding of outsourcing, [14] Specifies the value generation potential of an outsourcing relationship consists of three factors: client characteristics, the vendor-client relationship, and vendor characteristics. A key client characteristic is an understanding of how to manage resources that a firm does not own. A key in the vendor-client relationship is formal (contractual) aspect of the relationship. The third factor shaping the outsourcing value proposition is the vendor’s own capabilities. From an outsourcing vendor’s perspective, there are many potential opportunities and benefits for the client.

**2.2. Rare:**

A resource must be rare among the firm's present as well as potential competitors. As long as the number of firms possessing this resource is less than the number of firms needed to generate perfect competition, Barney’s findings suggests the resource is adequately rare to potentially create competitive advantage.

Valuable resources that are not rare cannot be the sources of the competitive advantage. To achieve the competitive advantage, resource must be valuable and rare [2], [5], [16]. However, this does not mean that valuable resources that are not rare are irrelevant to a company but considered strengths.

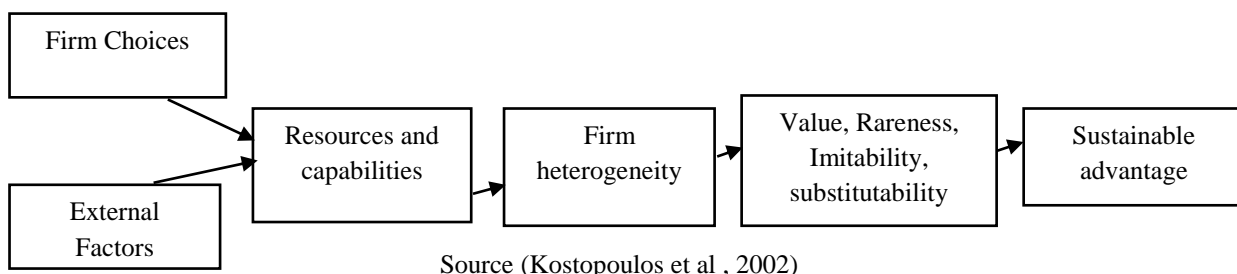
**2.3. In imitable:**

If the resources possessed by a firm can easily be replicated by competitors, even though the resources are the source of competitive advantage of the firm, then the advantage will not last long. [2], [18] all agree that a resource may be imperfectly imitable due its dependent on unique historical settings; its relation to competitive advantage is causally ambiguous and its social complexity.

**2.4. Non-substitutable:**

Non-substitutability indicates that there are no strategically equivalent substitutes that are valuable but are either imitable or not rare [2]. If potential competitors can easily acquire or imitate these substitutes for the resource, then the resource does not provide a means for sustained competitive advantage. [19] Believes RBV in outsourcing build from an organization that lacks valuable, rare, inimitable and organized resources and capabilities, shall seek for an external provider in order to overcome that weakness.

From a resource-based perspective, sustainable competitive advantage is the Outcome of resource selection, accumulation and deployment; through organizational capabilities, and is based upon the premise of firms’ resource heterogeneity [17] as shown in figure 2 below.



**Figure 2: Sustainable Advantage and RBV.**

According to [2], he defines resources includes all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness. He points out that the decision about how to obtain the capabilities needed by organizations depends not only on the degree of specificity, but also on the cost of developing capabilities or of acquiring those from other organizations that already possess them.

A company can sustain competitive advantage only through persistent improvement. [7] and [8] both believe in innovation. [8] indicated that Innovation grows out of pressure and challenges. Therefore, competitive realities demand leadership and good governance. Resources are not equally the same mainly to buy, manage and difficult to substitute thus companies must strategically position themselves with their competitors else competitors cannibalize on the profits.

The essence of Porter five forces model, a firm's performance in the marketplace depends critically on the characteristics of the industry in which it compete. In [9] study, Industry structure defines the 'five-force model' as entry barriers, threat of substitution, bargaining power of supplier, bargaining power of buyer and rivalry among industry incumbents which drives the industry competition.

Location addresses the determinants of productivity and importance of dynamic improvement to competitiveness. [9] and [10] acknowledge Intangible resources as difficult to acquire, substitute like experience and knowledge in which is considered as core competence of the company this is where the competitive position is built in. [10] concludes and says that, if a company knows once core competence then it's easy to know what to outsource. If resources and capabilities of a firm are mixed and deployed in a proper way they can create competitive advantage for the firm. Eventually, only companies themselves can achieve and sustain competitive advantage by innovation and strategically positioning in the market.

When assessing strategic goals of outsourcing, the resource-based viewpoint of competitive strategy gives important insights in helpful those outsourcing contracts that are described as partnerships. RBV gives implications on which activities are of core competence and thus should be produced internally. Companies can find outsourcing hazards beyond the usual opportunisms by one party in the relationship. [4] describes this hazards identified by utilizing as asset erosion, loss of access to assets and loss of control over strategic assets.

### **3. RBV IN HUMAN RESOURCE MANAGEMENT CONCEPT**

The RBV has considerable influenced Human resource Management. According to Armstrong (2009), RBV theory aims in providing justification for attaching importance to resourcing activities especially talent management and can also be used to enhance the value of the HR contribution in achieving competitive advantage.

In applying the concepts of value, rareness, inimitability, and substitutability, [15] suggest human capital pool must have both high levels of skill and a willingness (i.e., motivation) to exhibit productive behavior this is because HR practices could not form the basis for sustainable competitive advantage since could be easily copied by competitors.

Armstrong (2009) argues that RBV has limitation which first, it may be difficult to find resources which satisfy all the criteria and it provides only generalized guidance on what resources are suitable. Secondly, External factor for instance product market pressures are ignored and third, different resource configuration can provide the same value for firms.

Strategic fit means developing HR strategies that are integrated with the business strategy and support its achievement that is (vertical integration or fit) [1]. This approach aid in development of HR practices such as resourcing, employee development, and reward and employee relation so that they complement and support one another that is (horizontal integration or fit). [15] noted that most models of HRM based on fit assume that (a) a certain business strategy demands a unique set of behaviors and attitudes from employees and (b) certain human resource policies produce a unique set of responses from employees.

Armstrong (2009), Suggests the three HRM perspective include: universalistic, contingency and configurationally provides best practice as bundling. Bundling is the development and implementation of several HR practices together so that they are interrelated and concerned with the organization as a total system and addresses what needs to be done across the organization as a whole.

### **4. CONCLUSION**

One of the key findings related to the strategic outsourcing, researchers suggest that outsourcing leads to improved performance and cost, and investing in internal capabilities sustain competitive advantage but a firm must identify its capabilities which are characterized as Valuable, Rare, In-Imitable, and Non-Substitutable (VRIN). This capabilities should employ a value-creating strategy by either outperforming its competitors or reducing its own weaknesses and exploitation of opportunities else will remain latent.

Company's asset influences market performance, but not profitability, most researcher recommend resources that are valuable and rare resulting to many outsourcing, meaning shall seek for an external provider in order to overcome that weakness but can develop valuable resources by carefully managing relationship with external entities.

A resource may be imperfectly imitable but this advantage will not last long only through persistent improvement and innovation can sustain competitive advantage. The essence of Porter five forces model, the firm's performance in the marketplace depends critically on the characteristics of the industry in which it compete. HR practices could not form the basis for sustainable competitive advantage but human capital that has both high levels of skill and willingness, however, HR best practice as Strategic fit and bundling has been suggested.

Although many scholars have contributed to identification of the mechanism of sustainable competitive advantage of the firm by considering the RBV of strategic management, few scholars have paid attention to the outsourcing strategic decision process and its relation to RBV.

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