

Cafe espresso and sustained competitive advantage



The purpose of this report was to critically analyse the Human Resource and Performance management systems of Cafe Espresso as a source of sustained competitive advantage. Specific objectives were to discuss the Human Resource, as a source of sustained competitive advantage (under RBV) in a company. In addition, the implications of RBV (Resource Based View) on SHRM (Strategic Human Resource Management) of an organization were discussed and how performance management systems are put in place to multiply its efficiency. The role of managers in this regard was also analysed to certain extent. In the end, threat posed to Café Espresso was identified and recommendations were offered.

One of the challenges faced by the company was the sustainability of its competitive advantage. The report recommends an extensive use of innovation and creativity at all levels of management in the company and futuristic approach in all its strategies and decision-making process.

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Introduction

The case study on which this report is based, deals with one of the renowned players of the coffee house industry, called the ' Café Espresso'. After reigning the coffee industry for almost 15 years, they lost their market share at the hand of rival competitors. As their key staff was poached and business model imitated.

The new leadership in the form of charismatic chief executive, Ben Thomson, identified the problem in company's human resource and appointed, Kam Patel as a new global HR director to sort it out. Kam Patel worked on the new <https://assignbuster.com/cafe-expresso-and-sustained-competitive-advantage/>

HR strategy to achieve Ben's vision of becoming the 'number one coffee house across the globe'. She revolutionised the role of HR and introduced functions of 'Partner Resources', where all employees were termed as 'partners' in the business. Other key areas on which she focused were, resourcing and retention, learning and development, talent management, employee involvement and communication, and compensation and benefits. Her efforts reaped results and Café Espresso moved to number two in the industry. The service had improved considerably and there was an increased level of staff and customer retention.

However, they were now concerned about sustaining and developing this competitive advantage, which they achieved through superior strategy and innovative HR practices (Harzing and pinnington, 2011).

Objectives of the report

The main objectives of the report are to discuss the 'Human Resource Management' strategy of café espresso in light of 'Resource Based Theory' presented by Barney (1991). Followed by key recommendations, as to how it can further develop or maintain its competitive advantage, based on this perspective.

Purpose of the report

The purpose of this report is to put forward an inductive theoretical discussion, where by, the human resource in an organization can be viewed as a source of sustained competitive advantage. In order to accomplish our mission, we will focus on the need to introduce the 'Strategic Human resource Management' and the summary of 'Resource Based View' of an

organization, as well as, cursory touching upon the old and new conflicting theories in the process. We will then identify the circumstances, under which the human resource is actually valuable, rare, inimitable and non-substantial (VRIO framework). We will draw an end to literature review by discussing the implications of RBV on basic SHRM and example case study. Finally, we will discuss the inferences and put forward recommendations, as to how human resources can provide sustained competitive advantage and analyzing the role of HR practices in creating this advantage.

Limitations

Due to word limit, this report only discusses the theoretical research carried in the field of SHRM development and not the empirical research.

Literature Review

Strategic Human Resource Management and Transformation

Armstrong (2008: 5) defines ' Human Resource Management' ' as a strategic and coherent approach to the management of an organisation's most valued assets- the people working there, who individually and collectively contribute to the achievement of its objectives'. Therefore, strategic HRM can be termed as those HR policies and practices, which will help an organisation in achieving its long-term goals and objectives through its people. Purcell (1999) defines strategic HRM as ' those actions, which differentiate an organisation from its competitors in the market'.

HR policies and practices are no longer being formulated in isolation, as in the past. In the last half a century, HR functions have transformed from

personnel in 1970s to employee welfare (unions) in 1990s to a strategic business partners in 21st century (Holbeche, 2009; Ulrich and Brockbank, 2005). ' The current period of HR transformation has been greatly influenced by Dave Ulrich's thinking' (Holbeche, 2009).

Strategic Management Framework

Strategic management has seen remarkable advancement in the past half a century. Ever since the realisation of strategy into management, both academic researchers and practitioners have shown great interest in this field (Wright, et al, 1994). The business strategy encompasses the organisation's strength, weaknesses, opportunities and threats-SWOT (Chanda, 2009). The strategists have relied extensively on this single framework (SWOT) to structure their work (Barney, 1991). Other contribution in this framework is ' Porters- 5 Force Model' in Fig. 1. 1, which emphasizes on the external environmental factors affecting firm's performance. Porter's model did receive a wide range of acceptability by the practitioners, but it does not cater for the determinants, on which a company's manager has influence (Wright, et al, 1994).

Keeping in view the above mentioned strategic management theories, based on external factors determining the competitive advantage of an organization, let us now narrow down to strategic human resource management. In this regard, the most relative one is the ' Outside-in' (Michigan HRM Model) theory, first published by Tichy, et al., 1982)

According to them,' People are recruited in to the organisations to do the jobs defined, by the division of labour. Performance must be monitored and rewards must be given to keep individuals productive' (Devanna, et, al, <https://assignbuster.com/cafe-expresso-and-sustained-competitive-advantage/>

1984). In their model, Fig. 2. 2 ' Strategic management and environmental pressures' they present the basic elements as interrelated systems, that are surrounded in the work related environment.

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Fig. 2. 1 ' The five competitive forces that shape strategy'

Source: Harvard Business review, 2008

However, critics suggest that this model has harder, less humanistic approach to HRM, holding the employees as a resource, in the same manner as any other business resource. People can be obtained as cheap as possible, used sparingly, developed and exploited to organization's benefit (Price, 2011). Another limitation to this model is that, it cannot fit into dynamic and globalized economic conditions, where innovation and learning is the key to sustained competitive advantage.

One of the upcoming and current theoretical discussions on strategic management is the ' Resource Based View' of an organization (Barney, 1991; Wright, 1993). This theory of strategic management is different from environmentally-focused and externally motivated theories (e. g., Porter, 1980; Tichy, et al, 1982; Devanna, et al, 1984). It mainly focuses on the inside out view of the organization (Barney, 1991), its strategy and its performance (Hill and Jones, 2007).

Furthermore, the Resource Based model of competitive advantage is mainly organisation- focused as compared to strategic management analysis by

Porter and Devanna, which are industry environment- focused (Mc Williams and Smart cited in Wright, 1994).

Resource Based View of an organisation

Resource based view of a company as described above, emphasizes upon the internal resources of the company as a major factor in competitive success and sustainability (Wright, et al, 1994). It is therefore, imperative to briefly focus on the definitions of resources, competitive advantage and sustained competitive advantage.

Resources within Resource Based Theory

According to Barney(1991: 101) the resources in a firm are “ all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable a firm to conceive of and implement strategies that improve its efficiency and effectiveness”. Barney also classifies these resources in to three categories, such as, physical capital resources, human capital resources and organizational capital resources (Wright, et al, 1994). Since our focus is on human capital resources, therefore, according to Barney, it includes such things as experience, intelligence of both managers and workers in an organisation.

Competitive and sustained competitive advantage

When discussing the RBV of a firm, the above mentioned resources are in fact the source of competitive advantage. Barney (1991: 102) believes competitive advantage is being achieved “ when a firm is implementing a value creating strategy, not simultaneously being implemented by any current or potential competitors”. In contrast, in the environmentally

motivated strategic models (e. g. Porters 1980; Devanna1984), the resources are considered to be mobile and that companies can create or purchase, resources held by the other firms (Wright, et al, 2001).

The second definition is the 'sustained competitive advantage'. "Some authors have suggested that a sustained competitive advantage is simply a competitive advantage that lasts long period of calendar time (e. g. Jacobson 1988; Porter1985)" (Barney, 1991). Whereas, the new theory is that sustained competitive advantage occurs only when the competitors are unable to copy the benefits of a competitor advantage at the first place (Wright, et al, 1994). Therefore, the criteria chalked down by Barney (1991) for sustained competitive advantage in his resource based theory is VRIO:

Value should be created through resource

There should be an element of uniqueness or rarity in the resource as compared to its competitors in the market

The resource should not be imitable

The resource of an organisation should not be substitutable with resources from other competitors

Human Resource under VRIO Framework

We have established that human resource is one of the components of sustained competitive advantage. Let us now further discuss it under the resource based (VRIO) framework (Barney & Wright: 1997).

Human Resource as Valuable

As mentioned above, in order for human resource to become the source of sustained competitive advantage, it needs to add value to the firm (Elliot, 2003). According to Barney (1991), resources must possess additional characteristics, in order for them to add value to the organization. Other researchers believe that because of the variable level of skills and abilities of employees, there is a variance in individual contribution to the firm, consequently adding to the ability of human capital to provide value. (Wright, et al, 1994). In addition, value can also be created within the organisation for its human resource through regular training and development activities (Ulrich and Brockbank, 2005).

Human Resource as Rare

In contrast to the idea of rarity of human resources, it can be argued that labor pool is in fact homogenous due to existence of fairly high levels of unemployment, leading to an excess of supply of labor (Elliot, 2003). However, it is widely believed amongst the HR strategists that rarity in a human resource is derived from their variable levels of competencies and skills. For example, cognitive is an ability which is rarely found in all levels of human resource (Wright, et al, 1994). Since these rare competencies are distributed uniformly amongst the talent pool, therefore, quality human resource is rare (Lado and Wilson 1994).

Human Resource as inimitable

According to Wright et al (1994), " If the competitive advantage gained through having a high quality skilled worker is easily imitable, then it not

possible for human resource to constitute as a source of sustained competitive advantage". According to the RBV of competitive advantage, SHRM researches argue that the high quality workers can be imperfectly imitable, if they possess pre-requisites such as, unique historical background, casual ambiguity and social intricacy (Elliot, 2003). Furthermore, to sustain a competitive advantage, the human resource must also be imperfectly mobile i. e. that cannot be traded as regularly as possible (Amit & Shoemaker; Grant; Peteraf, cited in Elliot 2003). However, William (1992) argues that ' nothing lasts forever' and no matter what the organisation does, its competitive advantage will eventually be copied by its competitors. Therefore, he proposes the idea of ' First mover advantage'- how fast an organization can maneuver across a range of competitive conditions.

Human Resource as non-substitutable

Not able to be substituted mean that there must be " no strategically equivalent valuable resources that are themselves either not rare or imitable" (Barney 1991: 111). Alternatively, if the resources are not rare and imitable, the other firms will be able to easily create and implement same business model and strategies, thus, invalidating the benefits of competitive advantage (Barney, 1991). However, it is widely argued that the biggest advantage to human resource is the fact that every person is genetically unique in a way that no two people are exactly identical, thus they are heterogeneous resource (Barney & Wright, 1997; Wright et al, 1994; Pfeffer, 1995). In addition, human resources is the only source in an organisation, which has the potential to not to grow obsolete and can be easily introduced

to new technologies, products and markets (Wright, et a, 1994).

Furthermore, the time human resource spends in an oragnisation, adds to the experience which in turn adds to the total value of the organisation

(Barney & Wright, 1997).

Applying RBV to SHRM and sustained competitive advantage

As it is mentioned in para. 2. 1 that SHRM is a set of those HR policies and practices, which are designed to achieve long-term organizational goals. “

Though field of SHRM has not directly born of the RBV, it has clearly been instrumental to its development” (Wright; Dunford; Snell: 2001). It was

largely due to the fact that RBV shifted the view from external

(environmental) factors to internal firm resources as a source of competitive advantage (Hoskisson: 1999). Therefore, amalgamation of RBV into SHRM

should come as no surprise to the practitioners around the world.

HR practices and sustained competitive advantage

The potential of HR practices to establish a source of sustained competitive advantage has been argued greatly amongst academic researchers (Wright,

et al: 2001). Two arguments came in quick succession in 1994. Wright et al

(1994) suggested that HR practices (tools used to manage human pool),

when studied under the RBV, VRIO framework (Barney and Wright: 1997),

does not form the basis of sustained competitive advantage. As, individual

HR practices can easily be imitated by competitors. Alternatively, they

proposed that only the human resource capital (highly skilled and highly

motivated workforce) has the potential to become the source of sustained

competitive advantage for a firm (Elliot: 2003). In contrast, Lado and Wilson

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(1994) argued that HR practices are in fact the source of sustained competitive advantage for firm because HR systems (opposite to individual practices) can be unique, informally ambiguous and synergetic in way they develop firm competencies. Thus, HR practices with all its complementariness and interdependencies would be impossible to be copied by another competitor. This argument seems valid in the current SHRM paradigm (Wright, et al: 2001).

Development and performance management

The constant development in the field of SHRM has rendered RBV to achieve some consensus on the role of human resource in achieving sustained competitive advantage (Wright et al: 2001). These factors are illustrated in Fig. 2. 5.

Fig. 2. 5: A model of basic strategic HRM components

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Source: Journal of Management (2001)

The components depicted in Fig. 2. 5 are only the levers by which a pool of human capital can be developed (Wright et al, 1994). The role of managers in a firm is inherently limited, when it comes to defining the sources of sustained competitive advantage under VRIO framework (wright et al 2001). However, Wright et al (1994) argues that the managers can play a vital role in developing a pool human capital (highly skilled and motivated workers) by superior HR practices such as:

Extensive selection and recruitment process

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Systems to attract, identify and retain high quality employees

Training programs aimed at increasing and developing individual skills and competencies

Attractive wages and compensation packages

Based on Wright et al's(1994) model, Elliot(2003) suggests that the next aim of an HR manager is to affect the individual behavior of employees by introducing ' Performance Management Systems' supportive of firms competitive strategy. For example, Reward systems, Appraisal systems, communication systems and socialization systems and encourage employees to improve their individual performance, where by, they can deliver and act in the best interest of the organization (Wright et al, 1994).

Link between theory & practice- Café Espresso

Here, we will link theory to practice, by practically, adding the example from the case-study on ' Café Espresso.

After Ben Thomson (CEO) decided to re-launch Café Espresso's business strategy, the main emphasis of his program was the refurbishment of HR department. As, this discussion focuses on modern HRM theories and practices in light of RBV, it is evident that the new HR director, Kam patel, applied almost the same strategy. For example:

To start with, they set aside the external (outside-in) environment (Michigan model by Devanna et al (1984) and Porters forces model (1985)) and

focused on the firm's internal (Inside-out) HRM strategy and practices (RBV of the firm by Barney (1991) and Wright et al (1994)).

Due to high turn-over of employees in the industry and weak retention, they identified the key human capital of the company, as a source of competitive advantage (based on Wright et al, 1994).

Kam Patel, with her futuristic and modern approach, transformed the HR function as ' Partner Resources' (based on Holbeche, 2009; Ulrich and Brockbank, 2005).

She introduced performance management systems, for example, objective and development needs, in relation to knowledge, technical skills and behavioral skills. Performance appraisal was conducted bi-annually and feedback from customers and peers were included in the process. (Based on Wright et al, 1994; Elliot, 2003).

Under the VRIO framework (Barney, 1991), Café Espresso did manage to create Value, Rarity, Inimitability and non-substitutability through their superior HR practices.

Value and Rarity by introducing learning and development feature in their HR practice, for example, new recruits were encouraged to spend ' time on the floor'. They spent a day in Café Espresso development Centre, learning the company history and coffee industry. They were made Café espresso ambassador by taking part in the ' coffee master program. They were groomed through ' mentor system, where both baristas and managers were provided with a ' buddy', who would support and provide assistance in their

job. In addition, the new resourcing technique (window advertising and word of mouth) meant that most of their selected partners were actually loyal customers in the past, which is a rare human resource pool in a firm (Harzing & Pinnington, 2011).

In-imitability and non-substitutability is measured by the fact that café espresso possessed a unique team of partners (mostly former customers) with the same love and passion for coffee house experience amongst them. Furthermore, the retention strategy offered was of high quality and included wide range of benefits, for example, share option scheme and discount of 30% was offered to partners on all café espresso stores. In addition, they empowered their partners to provide suggestions and ideas. 'Partner Voice' a company magazine was introduced, by which all employees were kept aware of all the activities of the company (Harzing & Pinnington, 2011).

Conclusion

One of the objectives, set in the introduction part of this paper was to analyse the HRM strategy of Café Espresso in light of Barney's (1991) Resource Based Theory. It is proven from the discussion that Café Espresso did work on its HR policies and practices based on the reigning 'Resource Based Theory' by Barney and Wright. The link between Café Espresso's HR practices and company's performance has been established through the above mentioned theory. For example, when Ben Thomson did not find any solution in the external (industrial) environment, he turned his focus inside the company and immediately discovered problems in the internal resources; out of which the most important one was the HR function. With RBV of the firm he added value to the firm by employing an experienced HR

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director Kam Patel. She in turn added more value and rarity to the firm by introducing empirical HR strategies and unparalleled performance management systems. The result was that Café Espresso started to grow and moved to second place in the industry (Harzing & Pinnington, 2011).

It has been established that human resource can become a source of competitive advantage in the industry, as well as, a possible source of sustained competitive advantage when scrutinized under VRIO framework (Wright et al, 1994). Furthermore, Café Espresso did achieve the competitive advantage they hoped for, but the true test of the robustness of their strategy is in fact sustainability and development of the same.

Finally, is it enough for Café Espresso to not to worry any more about their current competitive advantage, as, they have fulfilled all the prerequisites of the Resource Based Theory of competitive advantage laid down in the paper? The answer will be discussed in the Recommendations part.

Recommendations

Despite the debate amongst strategists and scholars continue, regarding the effectiveness of RBV, there is no denying the fact that sustainability is the function of company's key resources and their immobility (Brahma & Chakraborty, 2011). Undoubtedly, the question is what makes these resources absolutely, valuable? Petraf and Barney (2003: 312) state that, "Resource Based Theory (RBT) is not the only or a best substitute for industrial level analytical tools, such as five-force analysis (Porter, 1980) or for group analysis or analysis of macro environment. It is relatively an

additional tool to complement all these tools, where by, one can search for possible causes of sustained competitive advantage”.

In view of the above, I have come up with following recommendations for café espresso and their issue of sustained competitive advantage:

Aphorism: ‘ Innovate or Die’ is a famous saying these days, which warns companies to innovate or face the consequences of being driven out of the market for good (Barney, Ketchen & Wright, 2011). Rapid advancement in the field of Information sharing technologies, Globalisation and dynamic economic environment are some of the factors, which pose an existent threat to any company’s competitive advantage in the market. Companies, such as Café Espresso, should not only rely on one successful strategy for long but should constantly revise and develop new ideas to develop and maintain their competitive advantage.

How time affects strategy? The common denominator is time; this approach helps managers become proactive in creating change- in policies, in practices and in processes. Williams (1992) suggested this theory for sustained competitive advantage, which I believe holds much valid in today’s fierce business environment. The success in this theory is embedded in the manager’s ability to change the rules of the game so entirely that the competitors are left behind in the chase. The management of café espresso should keep their options open and avoid fixation.

Futuristic leadership at all levels in the organisation is one of the key factors to sustained competitive advantage. A visionary team of managers will push the organization towards innovation and creativity, avoiding stagnation in <https://assignbuster.com/cafe-expresso-and-sustained-competitive-advantage/>

the process. Ben Thomson (current CEO) should constantly monitor market for new avenues and trends in the coffee house industry. He should also develop and train his key managers to become visionary and creative.

Capacity for change is an all-time important element of a sustained competitive advantage. Due to highly fluid business environment, where new technologies and features enter the market every day, a company should possess a capacity to change its internal business ethos accordingly. Human resource in an organization has a great capacity to change and being exposed to new environments.

Being Customer focused is last but not the least of worries for a company such as, café espresso. The kind of industry in which it operates is directly involved in customer service and satisfaction. Much study has been done on customer service and retention in the past two decades or so, because the focuses of almost all the businesses have now shifted in the direction of its customers. The future of entire coffee house business is embedded in this single aspect.