

# **A comparison between local and foreign firms on cross border skills' evaluations affecting competitive advantage: Perceptions from professional services' firms in Hong Kong, China and Taiwan**

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*This study represents a departure from the previous literature on human capital theory that is diverse and unconnected, but concentrates upon the study of skills' competitive advantage. It is because skills is one of firms' internal investment needed to be continuously upgraded, in order to be internationally competitive, other than products (or services), and business processes (Porter, 1991). A shortcoming among studies of competitive advantage is that it is inferred from the presence of substantial resources and/or high performance rather than direct measurements (Peteraf & Barney, 2003). This study will measure the perceived VRIO values of firms' Cross-Border human capital to achieve competitive advantage in the Pan China context (Hong Kong, PRC and Taiwan). Previous studies on competitive advantage are mostly of a descriptive/qualitative nature. Therefore, this study will employ multiple methods (triangulation) to develop empirically-relevant theory, with insight and richness of research, using multiple, comparative case studies. It moves away from the usual study of firm-specific skills of services' firms to the study of cross-border skills of Professional services firms, and this study will base on a previous research by Hitt, Bierman, Uhlenbruck, & Shimizu (2006) on international human capital, by testing whether service firms that internationalize without strong human capital are likely to be at a competitive disadvantage. Thus, this study bridges the gap between strategic human capital (skills) management and internationalization, achieving competitive advantage.*

**Key Words:** Competitive Advantage, Cross Border Skills, Professional Service Firms, Perceived VRIO values, a Pan-China study

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## Introduction

In contrast to most resource-based research, this study focuses on its fundamentals of a skills-based Cross-Border human capital-Perceived VRIO values-Competitive Advantage link, and draws on the resource-based perspective as its theoretic framework to test the viability of cross-border human capital as the source of a firm's competitive advantage. This research hopes to achieve the following objectives:

## Research Objectives

- a) To identify the cross-border skills of professional service firms in Hong Kong, PRC and Taiwan;
- b) To identify the relationship between cross-border skills on competitive advantage, and
- c) To evaluate how partners perceive their cross-border skills with VRIO Framework, and
- d) To test whether service firms that internationalize without strong human capital are likely to be at a competitive disadvantage (*Hitt, Bierman, Uhlenbruck, & Shimizu, 2006*).

## Research Problem

A shortcoming among studies of competitive advantage is that it is inferred from the presence of substantial resources and/or high performance rather than direct measurements (*Peteraf & Barney, 2003*). Previous studies on competitive advantage are mostly of a descriptive/qualitative nature. It moves away from the usual study of firm-specific skills of services' firms to the study of cross-border skills of Professional services firms, and this study will base on a previous research by Hitt, Bierman, Uhlenbruck, & Shimizu (2006) on international human capital, by testing whether service firms that internationalize without strong human capital are likely to be at a competitive disadvantage.

## Literature Review

Our literature review has found that there is a shortage of literature that concerns cross-border human capital of professional services firms, particularly concerning skills management, an integral part of human resources strategy. Past research only

examined the relationships between a particular industry and human management practice, they did not provide any indication about the specific assets firms need to successfully enter international markets (*Hitt, Uhlenbruck & Shimizu, 2006*). Neal & Hesketh (2001) also argued that traditional resources such as financial capital or access to technology, are less important because they are easier to imitate than human resources. That's why human capital is picked out for this research from the 6 categories of firm resources: financial, intangible, human, technological, organizational and physical resources (*Bogner, Mahoney, & Thomas, 1998*). Previously, Lepak & Snell (2002) have already tried to measure the distinctiveness of human capital for the commercial and public organizations, for educated employees, within a year's interval (*Cameli & Schaubbroeck, 2005*). We will measure the perceived VRIO values of the cross-border human capital of professional services firms over a period of 8 years (from 2000-2008) – 4 years prior to and after the signing of CEPA trade pact in 2004.

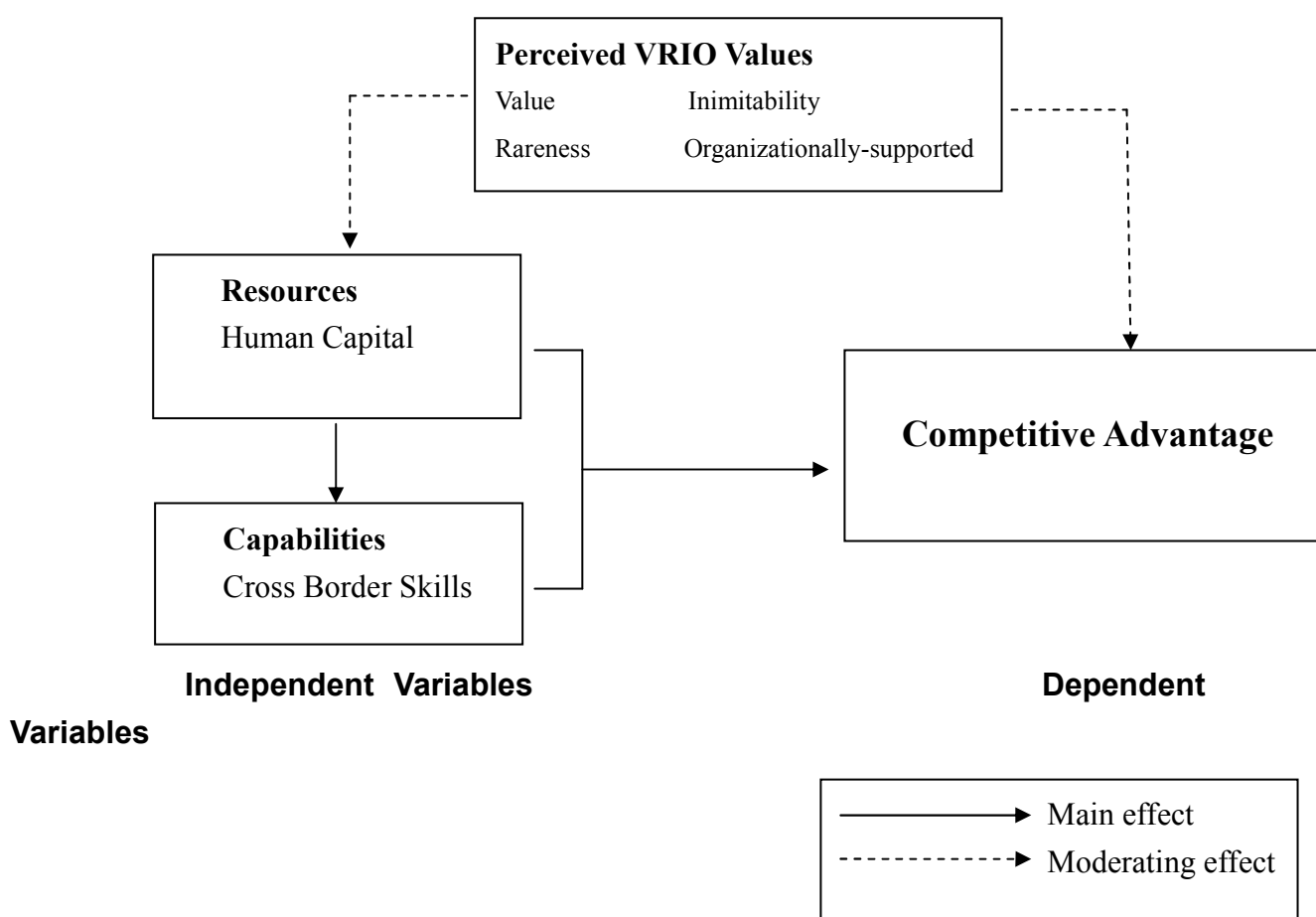
**In the area of human capital**, most studies that have examined human capital in firms have focused on their impact on firm performance, and most of these investigations have focused on general service firms in the local context. Of the few studies done on internationalization of services, only a few have concerned professional services firms. On the other hand, **in the area of internationalization of services**, some scholars have examined them in an unconnected approach, setting up different models, e.g. Ruzzier et al (2007), Jaw & Ling (2004). Some scholars have also linked resources to competitive advantage, e.g. Newbert (2007; 2008), but there has been a gap in having a research linking up internationalization (cross-border skills) to competitive advantage. In the current study, we will build on these ideas to extend knowledge of Cross-Border human capital in professional services firms. We will fill in the gap by emphasizing on Cross-Border Skills, as moderated by the CEO's perceived VRIO values, as one of the major elements to be examined. We argue that accumulating the Cross-Border Skills for cross-border transactions leads to competitive advantage.

Besides, Hatch & Dyer (2004) also state that empirical verification of the RBV theory has lagged because many of the resources that generate sustainable advantages are either unobservable or extremely difficult to measure (*Godfrey & Hill, 1995; Rouse & Daellenback, 1999*) We will measure the perceived VRIO values of all these Cross-Border human capital, using a Five-Point Likert-scale, thus, contributing to filling the gap in the literature on the applicability of the RBV to Cross-Border human capital of the professional services firms.

## Conceptual Framework

Based on Ruzzier et al.'s (2007) international human capital framework and a literature review, we have developed a Cross-Border Skills' conceptual framework, as shown in Figure 1. This framework incorporates the different factors that typically influence a cross-border human capital strategy, particularly those that concerned Cross-Border Skills, as moderated by the perceived VRIO values.

Figure 1: A Cross-Border Skills' Conceptual Framework



## Proposed Methodology

A triangulation of qualitative and quantitative methods will be used. Focus Groups/Survey: Pre- and Post-tested questionnaires in focus groups will be sent in a survey research. CEOs are requested to rate their perceived VRIO values of their Cross Border Skills. Data received will be interpreted and analyzed for changes and trend patterns. Case studies: Two largest foreign and local firms will be chosen as representative firms (according to their participation in CEPA – Closer Economic

Participation Arrangements) to conduct case studies, with CEO, HR partners, staff and clients, to get views from different stakeholders' perspectives.

## Topics for Discussion

Firms need to employ sufficient amount of manpower with appropriate level of skills and capabilities in order to serve their customers in a timely fashion (*Michie & West, 2005*). We would welcome discussions on the following two hypotheses during the workshop:

### Hypothesis 1: Capabilities and Competitive Advantage

The term human capital was first introduced by Nobel Prize-winning economist Theodore W. Schultz in a 1961 American Economic Review article: 'Investment in Human Capital.' Schultz popularised the concept of human capital by emphasizing the importance of investments in human productivity in economic growth. These investments include education, job training, health, and migration in human capital. (*Yen & Chen, 2006*) Carmeli & Tishli (2004) found that human capital is a source of higher performance by local authorities. Those local authorities implementing strategic human resource management practices that result in organization-specific educated and trained employees outperform those that do not (*Huselid, 1995; Huselid, Jackson, & Schuler, 1997*), which strengthens the premise that people are a valuable organizational resource (*Collis & Montgomery, 1998; O'Reilly & Pfeffer, 2000; Pfeffer, 1994*). In China, open companies lead the development of China's corporate sector by acquiring more talent, both locally and internationally. Locally, these companies offer high-performing Chinese workers an opportunity both to 'serve the nation' and to receive good compensation in fast-growing businesses. Foreign talent too will be attracted to the challenge of country building. On the other hand, multinationals must make more senior positions available to their Chinese talent in China and create organizations that not only train Chinese talent but also retain it for senior-management roles. These multinationals must become more Chinese in the composition and location of their management (*Woetzel, 2008*). As there are various definitions of human capital, we are of the opinion that human capital is the critical differentiator of a business enterprise's success in a knowledge-based era (*Fitz-Enz, 2000; Gebauer, 2003; Rastogi, 2003*). Firms with higher level of human capital tend to be more efficient in utilizing the knowledge they acquire (*Variyam & Kraybill, 1993*). Thus the scarce strategic resource that allows one company to surpass its competitors is the quality of its employees (*Bartlett & Ghoshal, 1993; Hendry & Pettigrew, 1995; Garavan,*

*Morley, Gunnigle, & Collins, 2001; Chen & Lin, 2003; Firer & Mitchell, 2003*), especially those employees who possess the cross-border skills, which Saffo (2009) says are 'moving home-grown Americans abroad, causing what could become a huge shift in the world economic order'. We therefore hypothesize that:

Hypothesis 1: Firms with Cross-Border human capital are more likely to generate competitive advantage at a higher rate than their counterparts

## Hypothesis 2: Capabilities and Human Capital

So far past theorists have only discussed about 'skills' in the light of 'complementary skills' (*Storey, 1995*), 'personal skills' (*Piazza-Georgi, 2002*), 'talents' (*Chen & Lin, 2003*), or just 'skills' (presumably normal working skills) (*Edvinsson & Malone, 1997; Pennings Lee, & Van Witteloostuijn, 1998; Sullivan, 2000; Youndt, Subramaniam, & Snell, 2004*). McCann & Selsky and Rosabeth Kanter have specifically brought up the word 'skills' again in 2003 and 2004, because they saw the fresh need for something that could suit the occasion, not the mundane, ordinary skills that normal staff would possess in themselves. Especially in the case of CEPA, Trade Development Council's (2005) survey, on Hong Kong law firms' success in their cross-border transactions into the China market, has also supported their call for something more specific, calling it 'the required skills', signifying that certain market really requires certain specific skills, in order for certain professions to excel in it. We would, therefore, redefine our skills as 'the cross-border skills'.

The cross-border skills, especially personnel with *guanxi* connections with China and knowledge about Mainland's organizational processes, would be highly sought after. Some capabilities are critical because there are no substitutes for them and organizational technology is dependent upon them. Skill set required would be dependent upon the service range in a particular firm and the scale and scope of their marketing plan into China. Usually, core skills required for lawyers are LLB qualifications. The cross-border skills for CEPA would be fluency in Putonghua, *guanxi* network and clientele, Mainland working experience, China's National Lawyers Examination Qualifications, etc.

These capabilities would enable firms to have quick access to resources to cushion the sudden impact of forceful random events, to offset opponents' sudden attacks, or to build rapid momentum for new strategic shifts (*Quinn, 1980*). In order for firms to invest in the cross-border skills, it would be necessary for us to find out how CEOs perceive values in these skills, by using Barney & Hesterly (2006) VRIO framework for the professional

services firms (lawyers), although Lepak & Snell (2002) have already tried to measure the distinctiveness of HR capital for the commercial and public organizations, for educated employees, experienced employees, trained employees, and skilled employees in two studies within a year's interval (*Carmeli & Schaubroeck, 2005*).

Further to the introduction of VRIS (an acronym which stands for Value, Rarity, Costly to imitate and Substitutability) back in 1991, Barney & Hesterly (2006) amended this acronym to VRIO – changing 'substitutability' to 'organizationally-supported'. They propose that companies must develop a VRIO Framework, with questions about their resource or capability to determine their competitive potentials: a) the question of Value: does a resource enable a company to exploit an environmental opportunity and/or neutralize an environmental threat? b) the question of Rarity: Is a resource currently controlled by only a small number of competing companies? c) the question of Imitability: do companies without a resource face a cost disadvantage in obtaining or developing it? And d) the question of Organization: are a company's other policies and procedures organized to support the exploitation of its valuable, rare, and costly-to-imitate resources?

Figure 2: The VRIO Framework (*Barney & Hesterly, 2006*)

Is a resource or capability:					
Valuable?	Rare?	Costly To imitate?	Exploited by Organization?	Competitive Implications	Strength or Weakness
No	-	-	No	Competitive Disadvantage	Weakness
Yes	No	-		Competitive Parity	Strength
Yes	Yes	No		Temporary Competitive Advantage	Strength and distinctive competence
Yes	Yes	Yes	Yes	Sustained Competitive Advantage	Strength and sustainable distinctive Competence

This VRIO criteria implies that firms that have not any VRIOs will be at a competitive disadvantage; firms that have only valuable resources but not the other three, would be at a competitive parity; whereas firms that have only valuable and rare resources, but not the other two, would be at a temporary competitive advantage, and firms that have all VRIOs, would have a sustained competitive advantage. This VRIO criteria could be used to evaluate the strategic importance of human resource management or human capital, such as: a) a clever leadership team (such as partners of the professionals), which can make choices effectively; b) hiring and training a capable workforce (such as with the cross-border skills); c) cultural change – the people issues that the resource-based view regards as strategic (*Boxall & Purcell, 2003*); d) Strategically, Barney (1991) considered that resources are valuable when they enable the company to take advantage of market opportunities (such as CEPA?) or deal particularly well with market threats in a way that competitors are not currently able to. The task is to manage these capabilities in such a way that rivals are frustrated in their efforts to imitate or outdo them; e) Firms should also pay attention to the ways they develop valuable resources and erect barriers to imitation of them, because identifying what is really valuable and protecting it with ‘barriers to imitation’ is at the heart of resource-based thinking (*Boxall & Purcell, 2003*); f) Hamel & Prahalad (1993, 1994) argue that competitive advantage, over the long run, stems from building ‘core competencies’ in a company which are superior to those of rivals. They place strong emphasis on analyzing a company’s collective skills, such as skills found in the complex teamwork embedded in the company, e.g. Sony’s ‘unrelenting pursuit of leadership in miniaturization’ – manifesting itself in various products over time. They argue for developing a ‘knowledge-based’, rather than a product-based, understanding of the company; and g) Leonard (1998) argues that executive should identify the distinctive or ‘core capabilities’ underpinning their products or services, which composed of four dimensions: the ‘content’ dimensions which include both the relevant employee skills, and technical systems, and the ‘process’ dimensions’ of both managerial systems, and values/norms.

Cross-Border Skills are important in international trading, as experienced by the Chinese managers, who still have a talent-development problem, because they find it hard to deal with the increasingly sophisticated global context by just emphasizing the improvement of technical skills (*Joeress & Zhang, 2008*). In absence of the Cross-Border Skills it would take three years for a Chinese team to get oriented to and acquainted with a foreign market, on acquisition of a foreign company. And although talents are developed in their conventional Chinese manufacturing setting,

they are still insufficient to cope with the new situations as demanded by globalization. Therefore, in preparation for successful cross-border transactions, Cross-Border Skills, such as: Fluency in Putonghua, Guanxi network, Mainland working

experience, China's National Lawyers Examination Qualifications, Law Compliance, etc. are necessary in order to have a successful internationally-oriented team. New lawyer services for CEPA would be expertise in handling cross-border mergers and acquisitions (M&A), and in advising Mainland clientele on international capital markets, commercial litigation, international arbitration, corporate law and intellectual property issues. In the case of CEPA, we observed from the Hong Kong Stock Exchange's 2004-2006 statistics that the most important high-end marketing service that law and accounting firms have been providing for their Mainland Chinese clientele is Initial Public Offering (IPO), especially by the BIG FOUR accounting firms. From 2004-2006, 28 out of 133 total Mainland Chinese firms have been successfully listed on the Hong Kong's Stock Exchange's Main Board and 73 out of 253 total have been listed on the Growth Enterprise Market. TDC's (2005) survey also confirmed that 300 mainland firms have been listed on the Hong Kong Stock Exchange.

Our argument is that China is a huge market to be tapped, and to take advantage of this valuable CEPA opportunity, firms must be equipped with the cross-border skills. We therefore hypothesize that:

Hypothesis 2: Firms with Cross-Border Skills are more likely to have positive effect on human capital.

## **Conclusion**

This study aimed to bridge the gap between strategic human capital (skills) management and internationalization, achieving competitive advantage, an area which has not been widely researched in human resources management, studies concerning services, nor competitive advantage. The findings hopefully will shed lights on CEO's perceptions towards the VRIO evaluation of cross-border skills in the Pan-China region, affecting competitive advantage, and how different patterns arising from the evaluations of local and foreign firms. Efforts towards this direction may remind the CEOs of the importance of the possession of cross-border skills for successful cross-border transactions in the Asia-Pacific region.

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