# THE EFFECT OF FIRM RESOURCES ON FIRM ACTIVITIES: AN EMPIRICAL STUDY OF SMES IN HARARE.

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**ABSTRACT**
The relationship between company resources and company activities has become an important area of study in strategic management literature in the 21st century. The resource based theory posits that company resources are the critical sources of competitive advantage and superior performance in firms today. Meaningful business strategic decisions are therefore guided by the nature of the internal resources available in the organisation. To that end this paper seeks to explore the relationship between organisational resources and firm activities. This research was carried out among Small to Medium Enterprises in the manufacturing sector of Harare in Zimbabwe. A structured questionnaire was used to obtain data from a sample of 127 respondents. The results showed that there is a positive relationship between firm resources and firm activities ($r = 0, 67$). The coefficient of determination ($r2=0, 51$) shows that firm resources account for 51% of the variance in firm activities, and vice versa.

**Keywords:**. Company resources, Company activities, Resource-Based Theory, Competitive advantage and company performance.

## INTRODUCTION

Studies on organisational resources and strategic management have demonstrated that company resources have an effect on company activities (Miller and Ross, 2003; Morgan et al, 2004; King, 2007; Sirmon et al, 2007). A number of authors have identified several resources that make a company tick. According to Grand (1991) and Azzone et al (1996) company resources include; financial resources (plant, machinery and equipment), human resources, technological resources, reputation, and organisational resources (internal controls, organisational climate, corporate culture and internal relationships). Company resources are defined as tangible or intangible resources.

Tangible resources include human, financial or physical resources whereas intangible resources include firm image, patents, corporate and culture (Hall, 1992; Zahara and Das, 1993; Collis and Montgomery, 1995). Firm resources are also used to refer to assets or skills. A firm possesses assets such as brand, geographical location, contracts, licences, trademarks and copyright (Aaker,

1989; Hall, 1992). Various authors believe that resources should contribute to the company's sustainable competitive advantage (Mahoney and Pandian, 1992). However, Prahalad and Hamel (1994) propose a number of tests that can be used to measure the relevance of company resources to firm activities.

**Table 1: Tools for measuring resources**

| Measurement tool | Function and narration |
|---|---|
| 1. Competitive superiority test | The measurement tool evaluates if and to what extent the resource contribute to differentiating the company from its competitors. |
| 2. Imitability test | The measurement tool analyses actual and potential competitors' difficulty in imitating the resource, due, for example, to its physical unique, path dependency casual ambiguity or economic deterrence. |
| 3. Duration test | The measurement tool is used to measure if the resource's benefits will also be generated in the long term. |
| 4. Appropriability test | The measurement tool is used to verify if the company owning the resource is able to exploit the advantages generated in the market. |
| 5. Substitutability test | The measure tool assesses how difficult it is for competitors to replace the resource with an alternative that gives the same advantages. |

**Source: Rangone (1999)**

Barney (1991) in Che Pose et al (2010: 494) noted that a firm's resources include, "assets, capabilities, organisational processes, firm attributes, information and knowledge" that make it easier for the firm to develop good strategies to enhance its efficiency and effectiveness. The VRIN model proposes that firm resources must be unique and not common (Ainuddin et al, 2007). In VRIN model, V stands for Value, R stands for Rarenes, I stands for Inimitable while N stands for Non-substitutable (Ainuddin et al, 2007).Peteraf (1993) demonstrated that a firm's resources can also be called a firm's competitive advantage if the availability of such resources enhance firm performance. Certain classes of resources possessed by the firm generator competitive advantage that ultimately leads to superior firm performance (Miller and Ross, 2003; Morgan et al, 2004; King, 2007; Sirmon et al, 2007; Ainuddin et al, 2007).

Ray et al (2004) define firm activities as "business processes and procedures." Business activities are those actions that firms undertake in order to achieve organisational objectives (Ray et al, 2004). Firm activities can also be explained in respect of the routine day to day operations that are developed by the firm in order to implement strategies, policies or goals of the organisation (Porter, 1991). Firm activities provide the platform on which firm resources can be mobilised and transformed into physical artifacts such as goods, commodities, or products that have a value (Gimenez and Ventura, 2002; Wiklund and Shepherd, 2003; Voss, 2005; Nelly, 2005; Franco-Santos et al, 2007; Perez-Freije and Enkel, 2007). Firm activities are measured in terms of organisational resources, competitive advantage, company vision, mission and capabilities (Gimenez and Ventura, 2002; Ray et al, 2004). Company activities are supported by employee team work, procurement and logistics systems, customers, suppliers and Ventura, 2002; Ray et al, 2004).

Studies on human resources have shown that human capital (HC) is critical to the implementation of all firm activities (Clarke et al, 2011). Several authors believe that the effect of HC, on firm activities is not direct (Hayton, 2010; Jin et al, 2010; Unger et al, 2010). The HC functions of planning recruitment, strategy formulation, staffing and goal setting help the organisation to generate capabilities that enhance firm performance and result in sustainable development of the organisation as a system (Grant, 2005). Human Capital (HE) is the sum total of all the concepts, knowledge, skills, abilities and leadership styles (Ployhart and Moliterno, 2011).Organisations create value for customers through product development or differentiation in a way that allows charging a premium price (Barney and Wright, 1998). The creativity of workers is a product of human capital and is used to create more valuable products or services (Jin et al, 2010). The skills and knowledge of workers translate into enhanced firm productivity and operational efficiency (Jin et al, 2010).

**2.Hypothesis**

**HI**: There is a significant positive relationship between firm resources and firm activities.

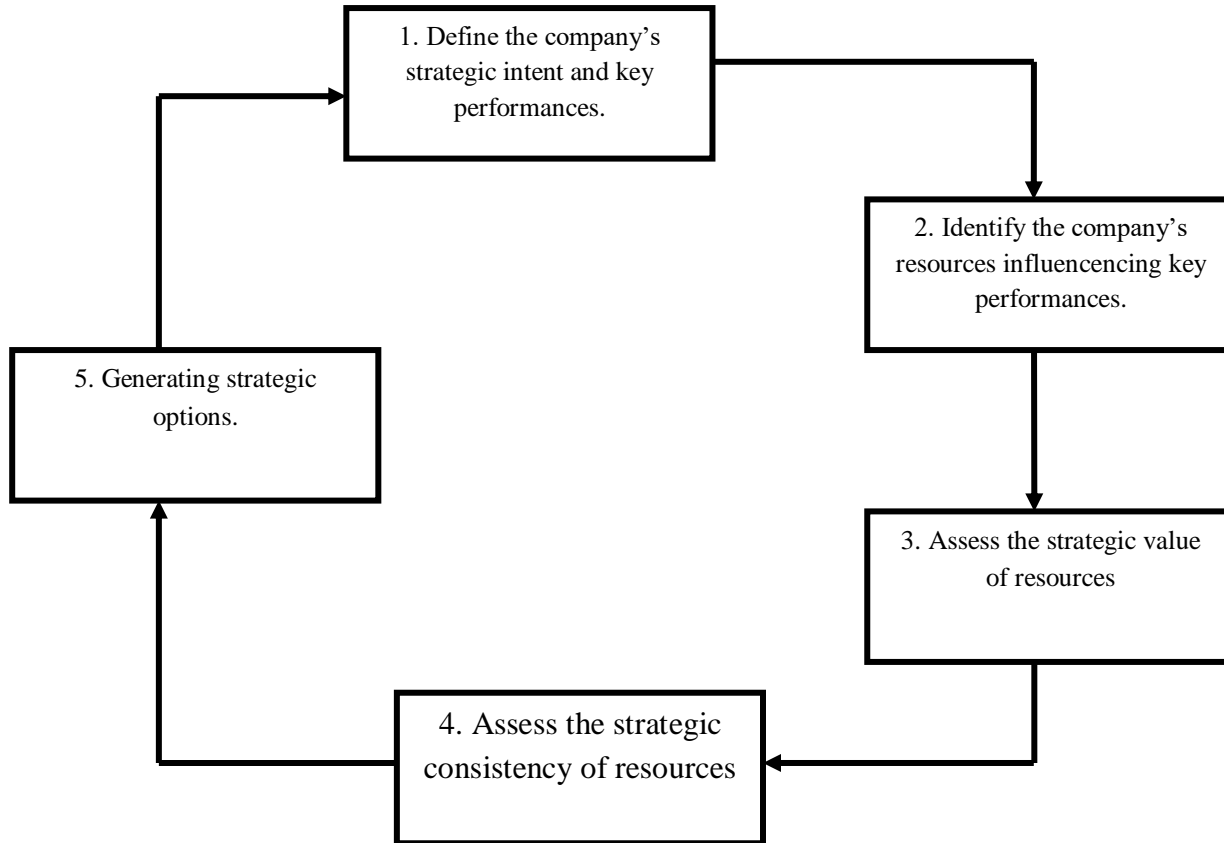**HII**: Firm resources have a positive effect on firm performance.

**HIII**:Human capital management has a positive effect on SMEs operational efficiency

## 3. The theoretical review and framework

The resource-based view (RBV) is premised on the philosophy that firm resources are at the centre of all company activities and operations ( Peterafand Barney, 2003). The RBV model assumes that firms in the industry hold different bundles of resources ( Peteraf and Barney, 2003). The resources held by a particular firm cannot change in the short run (Peteraf and Barney, 2003). Experts in strategic management believe that resources controlled by a firm at any given time have different levels of efficiency that enable the firm to create the needed customer value (Peteraf and Barney 2003). The resources based theory is rooted in economic theory (Andrews, 1971). In the Longrun, the competitiveness of a firm is determined by the availability of resources that differentiate it from its competitors and the resources must have qualities that make it difficult for other firms to imitate and substitute (Grant, 1991; Peteraf, 1993; Barney 1991; Prahalad and Hamel, 1990). Studies on Small to Medium Enterprises (SMEs) and their competitive advantages have shown that there are three basic capabilities that are generated by the mere possession of certain classes of resources (Rangone, 1979: 235):

1. Innovation capability: This is the ability of the company to produce new products and processes, and achieve superior technological and or management performance.

2. Production capability:This is the ability of the firm to produce and deliver products to customers, while ensuring competitive priorities, such as quality, flexibility, lead time, cost, and dependability.

3. Market management capability: This is a company's ability to market and sell its products effectively and efficiently.

Experts of the resource based approach to strategic analysis in SMEs argue that the mere possession of critical resources by a firm does not translate into superior financial performance (Rangone, 1979). Superior financial performance depends on three factors, namely, industry structures, industry attractiveness and the ability of the firm to convert resources into capabilities (Rangone, 1979). Therefore the model on resources and strategic analysis in SMEs has five stages as shown in Figure 1:

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                    ┌─────────────────────┐
                    │ 1. Define the company's
                    │ strategic intent and key
                    │ performances.
                    └─────────────────────┘
                                              │
                                              ▼
                                    ┌─────────────────────┐
                                    │ 2. Identify the company's
                                    │ resources influencencing key
                                    │ performances.
                                    └─────────────────────┘
   ┌─────────────────────┐                    │
   │ 5. Generating strategic                   ▼
   │ options.                         ┌─────────────────────┐
   └─────────────────────┘           │ 3. Assess the strategic value
                                      │ of resources
                                      └─────────────────────┘
              ┌─────────────────────┐          │
              │ 4. Assess the strategic ◄───────┘
              │ consistency of resources
              └─────────────────────┘
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**Source: Rangone (1979:237)**

In the first stage the entrepreneur and the management team define the firm's strategic intent and the key performance (Rangone, 1979). This means isolating those capabilities on which the firm depends for operational excellence. It also means defining the industry's key success factors and the core benefits that are due to customers (Rangone, 1979). In the second stage all relevant resources are identified and grouped according to the capacity in influencing key performances (Edwards and Peppard, 1994). In stage three the strategic value of the resources possessed by the firm is assessed (Rangone, 1979) The resources must posses qualities of competitive superiority; imitability, duration, appropriability and sustainability (Rangone, 1979). Stage four measures the strategic consistency of resources. Resources must possess the ability to align with the firm's

strategic objectives (Peteraf and Barney, 2003; Prahalad and Hamel, 1990; Grant, 1991). Stage five is all about giving qualitative weight to the value of the resources possessed by the firm at a given point in time and this is illustration in Figure 2:

| Strategic consistency / Strategic value | LOW | HIGH |
|---|---|---|
| LOW | Not significant | 2 |
| HIGH | 3 | 1 |

**Figure 2: The strategic value matrix**

**Source: Rangone (1979: 241)**

Square one shows resources that have a high strategic value, while square 2 shows resources that have a high consistency level but low value. Resources that are not aligned to the firm's strategic objectives are in square 3. These resources with low consistency and low value are irrelevant to the firm (Rangone, 1979: 241).

**The systems theory of management**

Organisations are open systems and depend on the external environment (the industry) for their resources (Chikere and Nwoka, 2015).According to Weihrich et al (2008) organisations receive raw materials, labour skills, knowledge, technology and leadership from the external environment. A system consists of many interrelated elements called subsystems which must coordinate in the process of converting inputs or raw material into outputs (McShane and Von Glinow, 2003).
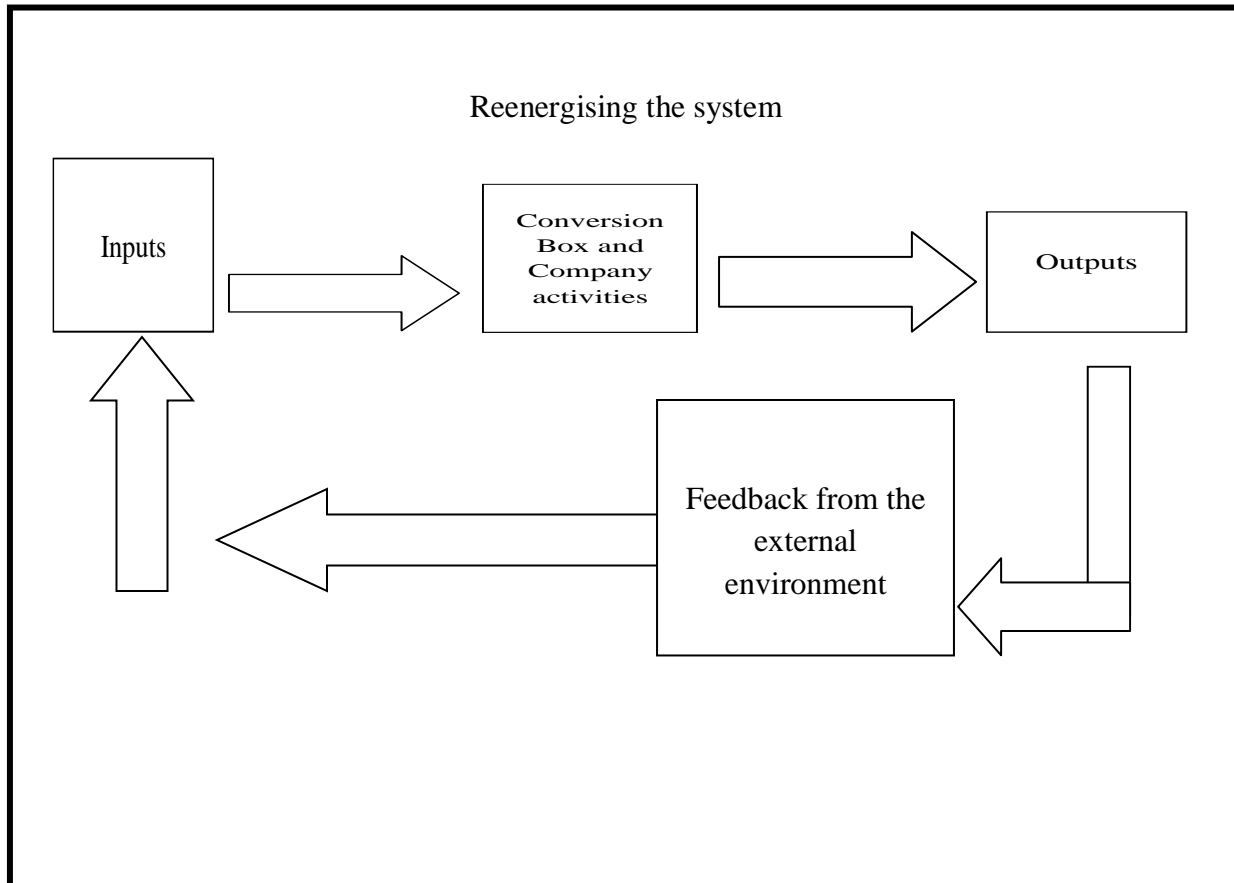
**Figure 3: The Input-output model**

**Source: Weihrich, et al (2008).**

The input-output model consists of five subsystems, which are, inputs, conversion box, external variable outputs, and reenergizing the system (Bailey, 1994; Burns and Stalker, 1961;Checkland, 1981; Fiedler, 1967; Stoner, 2008; Von Bertalanffy Ludwig, 1973. Inputs come from the external environment and may include, people, capital, managerial skills and technical knowledge. The inputs are transformed into outputs in the conversion box. The external environment plays a significant part in the conversion of inputs into outputs. Outputs include product, services, profits, satisfaction and customer value. In this regard, inputs represent firm resources, the conversion box represent firm activities whereas outputs represent the effect that resources have on firm activities. (Sabah et al, 2012; Almin Ismadi Ismail, 2011; RadnanChe Rose et al, 2010).

**The research methodology**

This study was conducted in Harare among Small to Medium Enterprises (SMEs). The researcher used descriptive quantitative survey design. The design was favoured because it enabled the researchers to manipulate various techniques of data collection (Joshi and Kitin, 2006; Hellens et al, 2006; Newman, 1977). A structured questionnaire was used to collect data from 200 SMEs in the various sectors of the economy. The sample was selected using a random stratified survey. From the subsequent actual survey, 127 respondents completed and returned the questionnaire and the response rate was 63.5percent. The Bivariate correlation was used to test hypothesis. Secondly the multiple regression analysis was computed to explain the relationship among variables.

**Results and Discussion**

First and foremost, the bivariate correlation was used to explain hypothesis I. Pearson product-moment correlation coefficients described the association between the variables. The correlation coefficient (r) was described as follows

| Small correlation | $r = 0.10$ to $0.26$ |
|---|---|
| Medium correlation | $r = 0.28$ to $0.47$ |
| Large correlation | $r = 0.47$ to $0.98$ |

There is a signification relationship between firm resources and firm activities as represented by $r = 0.67$, $n=127$, $p<0.01$. The results seem to indicate that as more and more resources are used in the organisation, more and more firm activities are generated. The large correlation ($r=0.67$) suggests a significant positive relationship between firm resources and firm activities. The coefficient of determination ($r=0.51$) helps to explain the variance in firm activities of nearly 52%.

**Table 2: Effect of firm resource on firm performan**

| (R) | (R$^2$) | B | | F | Sig |
|---|---|---|---|---|---|
| | | | 0,451 | | |
| | | Firm | | | |

| 0.550 | 0.303 | Resources | | 13.357 | 0.000 |
|-------|-------|-----------|---|--------|-------|

**Defendant variable: firm performance the effect is significant at level (00< 0.05).**

Table 2 shows that firm resources have a significant positive effect on firm performance. The regression analysis is used to explain that R2 of 3.03 (F= 13.357 p< 0.001). The findings support H2 which says that firm resources have a positive effect on firm performance.

**Table 3: Human capital management and firm operational efficiency.**

| HC – Perf | Original Sample (0) | Standard Error | T.statistics |
|-----------|---------------------|----------------|--------------|
| Direct | 0.28 | 0.20 | 1.26 |
| Indirect through | | | |
| HCM | 0.29 | 0.15 | 1.69 (*) |
| Indirect through IICM | 0.28 | 0.12 | 2.45 (**) |

**\* Significant at p-level < 0.1**

**\*\* Significant at p-level <**

**\*\*\* Significant at p-level <**

Table 3 shows the various effects that Human Capital Management (HCM) has on firm operational efficiency. The results of Table 3 are used to explain that Human capital management, as an indirect positive relationship with firm operational efficiency.

**Conclusion and implication**

The study explains the relationship between firm resources and firm activities. This study has managed to strengthen the theoretical proposition that the resources of the firm determine the quality of firm activities and hence operational efficiency. Analysing the importance of firm

resources is important in that firms can enhance their competitive advantage, by manipulating certain classes of resources. Therefore this study contributes immensely to the body of knowledge by describing the significance of firm resources to firm performance. Several authors agree that the manipulation of human capital helps the firm to achieve better business performance. This study explains the need for companies to recruit relevant skills in order to strengthen their competitive position on the market. This study presented the VRIM model that was used to explain that firms should possess unique capabilities in order to register massive competitive advantages in the industry.

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