Human resource strategies, mature workers and competitive advantage:

a resource-based view

Hélène Mountford* and Peter A Murray

*Corresponding author email: hmountfo@efs.mq.edu.au

Department of Business, Division of Economic and Financial Studies, Macquarie University, North Ryde, Australia

Human resource strategies, mature workers and competitive advantage:  

a resource-based view

Abstract

The recent growth of the Australian economy has created labour and skills shortages. A key point is, however, that labour shortages in many areas, particularly service industries, could be filled by mature workers. Many of these workers will delay retirement or return to the workforce after retirement. One argument is that mature workers’ experience should be highly valued. Moreover, this cohort possesses superior knowledge to younger workers. Among other things, this relates to corporate knowledge, mature judgment, lower absenteeism, greater work ethic and reliability. Generally, mature workers are noted for their loyalty. Against a background of the resource-based view (RBV) at firm level, this paper seeks to demonstrate the increased benefits of utilising mature workers. We argue that when combined with superior HRM practices, it is possible for an organisation to improve its competitive advantage and increase productivity. We suggest, however, that organisations need to increase their focus on age-neutral attraction, retention and development policies.

Keywords: Mature workers, resource-based view, skills shortage, human capital, human resource management and organisational performance.

Introduction

For some time policy makers in developed countries have been exhorting baby boomers (those born between 1946 and 1964) to remain in the workforce. This was largely because national economies would incur greatly increased social security costs due to increased longevity and low birth rates. Australia cannot afford mature workers to retire at the same age as earlier cohorts (EPAC 1988, 1992; Clare and Tulpule 1994; Productivity Commission 1999) so policy makers have encouraged them to remain at work (Bishop 1999; IGR 1 2002; IGR 2 2007). As baby
boomers comprise almost a quarter of the Australian population (ABS 1999) and a third of the workforce (ABS 2008), large numbers of retirements in good economic times would also mean acute labour shortages in a number of industries. The global competition for skilled migrant labour as a traditional source of workers has also increased. Accordingly, traditional forms of recruitment that included migrant workers and poaching workers (McKeown and Teicher 2006) has become more complex and difficult. Further, high levels of skilled Australian workers, particularly managers, administrators and professionals are increasingly attracted to other countries (Holland, Sheehan and De Cieri 2007:257).

This paper explores two things. First, it argues that baby boomers are a critical source of labour. We do this by illustrating why mature workers ought to remain in the workplace beyond the traditional retirement age (effectively 63 for men and 61 for women in Australia, OECD 2005). We also discuss why it is important for mature cohorts to re-enter employment. Second, we describe the connections between mature workers on the one hand and increased productivity on the other. Using the resource-based view as a basis for theory grounding, we argue that organisations are more likely to achieve increased competitive advantage when mature worker policies are an important aspect of age-neutral diversity strategies.

**Mature workers and employment**

Australian baby boomers are now aged between 43 and 61 years. For our purposes, we refer to baby boomers and mature workers (MWs) interchangeably. For various reasons, however, many are choosing not to retire early if at all (ABS 2007; Australian Psychological Society 2007; Lundberg and Marshallsay 2007) however, MWs value more flexible and meaningful work. Flexibility commonly means less intense work or fewer hours at the workplace. While workers are adapting (or are wanting to adapt) to this new paradigm, employers are not implementing human resource management practices that utilise highly experienced workers. For example, in 2006-07, a third of full time workers aged 45 years or more planned to move from full to part time employment before retirement. However, of those working part time, 65 per cent were
forced to change their employer before achieving this goal (Abhayaratna, Andrews, Nuch and Podbury 2008:125). The main reasons stated for leaving their former employer related to the unsuitability or difficulty of undertaking part time work. Among other things, two common reasons for leaving work included long, unsocial or unsuitable working hours (28 per cent) and early dismissal (18 per cent). This suggests that the aggregate labour market displays more flexibility for MWs than individual workplaces (Abhayaratna et al 2008:126), despite the view that MWs possess important tacit knowledge and know-how.

The resource-based view

It is now well established that according to the resource-based view (RBV) of strategic management, human resources is an important component of an organisation which, in combination with other firm inputs, can create competitive advantage for a firm. The RBV has become the dominant theory in strategic HRM related to how better human resources and HR practices increase firm performance (Paauwe and Boselie 2003). An organisation’s resources can be divided into three categories; 1) human capital resources (including training, experience, judgment, intelligence, relationships and insights of individual employees), 2) organisational capital resources (including processes and systems and informal internal and external networks) and 3) physical capital resources (Barney 1991:101; Penrose 1959; Wernerfelt 1984). Some scholars have conceptualised the firm as ‘an administrative organisation and a collection of productive resources’ (Penrose 1959:31). She distinguished between ‘physical’ and ‘human resources’ (p 24) with the latter including the knowledge and experience of the management team. Wernerfelt, by comparison, believed a resource was anything which could be thought of as a strength or weakness of a given firm, a tangible asset tied semi-permanently to the organisation (Wernerfelt 1984:172). Barney (1991) expanded this definition to include

All assets, capabilities, organisational processes, firm attributes, information and knowledge controlled by a firm that enable it to conceive of and implement strategies that improve its efficiency and effectiveness (Barney 1991:101).
He went on to theorise that an organisation has potential to generate competitive advantage if its resources are valuable, rare, inimitable and nonsubstitutable (Barney 1991:105). Subsequently, considerable debate has occurred on each of these terms. General agreement suggests that human capital can be a source of competitive advantage, that human resource practices have the most direct influence on the human capital of an organisation and that the complex nature of human resource management systems can enhance the inimitability of the system (Paauwe and Boselie 2003:9).

Following Barney (1991), Wright, McMahan and McWilliams (1994) distinguished between the firm’s human capital pool (a highly skilled and motivated workforce) and human resource practices (the tools used to manage the human capital pool), believing the human capital pool had a greater potential to constitute sustainable competitive advantage (Wright et al 1994:703). Boxall (1996) extended Barney’s views by distinguishing between human capital advantage and human process advantage by combining them to create human resource advantage. Human capital advantage came through recruiting and retraining outstanding people and the capturing of the stock of exceptional human talent. The argument was that this process would lead to productive possibilities. Human process advantage comprised ‘causally ambiguous, socially complex, historically evolved processes’ such as learning, co-operation and innovation (Boxall 1996: 66-67). The combined human resource advantage created a superiority of one firm’s labour management over another’s and the opportunity for competitive advantage (Boxall 1996:67). This is particularly so in the case of professional service organisations with an increasing labour scarcity (Doorewaard and Meihuizen 2000:39) and, we conjecture, all knowledge work using Lepak and Snell’s (2002) definition of knowledge work being employment structured around the skills and competencies of employees, rather than the execution of programmed tasks and routines. Since Barney’s (1991) seminal work, Wright, Dunford and Snell (2001) conceptualised human capital as a dynamic human capital pool (comprising employee knowledge, skills and abilities) and employee relationships and behaviours (elsewhere described as social capital). A key point is that both the human capital pool subsets of ‘skills’ on the one hand and ‘behaviours’
on the other ought to be supported by superior people management practices (or HRM best practice) such as better training, productive work design and rewards, and better learning and development practices (Wright et al 2001:704). According to these scholars, sustainable competitive advantage can be achieved when all three components (‘skills’, ‘behaviours’ and HRM practices) are combined.

Sustained competitive advantage is not just a function of single or isolated components but a combination of human capital elements such as the development of a stock of skills, strategically relevant behaviours and supporting management systems (Wright et al 2001: 706).

Figure 1 demonstrates the connection between the three elements discussed. We suggest that the additional input of mature worker skills and behaviours increases the human capital stock of knowledge and capabilities. In turn, we contend that the flow of knowledge between these workers and other workers improves relationships and networks within the firm. Similar to the interactive (increased one-on-one communication) and integrative (increased cohesion) skills of teams of workers, mature workers influence relationships in positive ways. When these relationships (such as mentoring and training for instance) are infused with the existing knowledge stock of the firm, we suggest that this leads to improved capabilities. An improved stock of capabilities leads to increased human capital competencies. Following both Priem and Butler (2001) and Barney (1991) improved competencies - in this case human competencies - leads to competitive advantage since the firm achieves greater outputs or resource-based rents and returns from the total human capital pool.
Applying the RBV as a basis for describing the contribution of MWs (i.e. 45 years or more), it can be argued that organisations need superior HRM practices to take advantage of the stock of skills, abilities, knowledge, behaviours, relationships and networks of MWs. Next, we describe in more detail the connection between MWs, the RBV and improved productivity through the windows of mature workers’ greater experience, diversity management and HRM best practice.

**Mature workers, experience and productivity**

Recent research by Feyrer indicates the ageing demography of the workforce has a strong and significant correlation with the growth rate of productivity (Feyrer 2007:100). His study found that changes in the age structure of the workforce (as developed countries aged) are significantly
correlated with changes in aggregate productivity. Different demographic structures may be related to almost a quarter of the persistent productivity gap between the OECD and low-income nations, because changes in the demographic structure led to changes in the aggregate human capital in the form of experience. Cohorts aged 15-39 were associated with significantly lower productivity (Feyrer 2007:105). Jaimovich and Siu (2008) also conclude that the ageing workforce in the G8 countries had a statistically significant effect on the reducing recent business cycle volatility. In the US it accounted for between one-fifth and one third of the moderation in cyclical volatility (Jaimovich and Siu 2008: 23). In contrast to the macro view of the benefit of larger numbers of mature workers, and the only research of its kind in Australia, Brooke (2003) established that there was moderate firm-level cost gains in employing mature workers compared to younger workers. The net human resource benefit of recruiting and training older employees was greater by almost $2000 each than the cost of absenteeism and work injuries from this age group compared with younger workers (Brooke 2003:279). At the retail level, a similar outcome was found. For a 190-store fashion chain (Noni-B), where half the staff is aged more than 45 years, profits have increased on average by more than 30 per cent a year for the past four years (Chaminade 2006). Other empirical studies have found that greater skills and attributes contribute to productivity among mature workers more than younger workers. Among other things, it appears that MWs offer greater reliability (Patrickson and Hartmann 1995; Steinberg, Najman, Donald, McChesney-Clark and Mahon 1994; Hayward, Taylor, Smith and Davies 1997 [the latter two cited in Brooke and Taylor 2005]), more productivity (Patrickson and Hartmann 1995; Bennington and Tharenou 1996; Hayward et al 1997; Steinberg, Walley, Tyman and Donald 1998), and more loyalty (Steinberg et al 1994). Consistent research has found that MWs offer more dependability (Steinberg et al 1994, Steinberg et al 1998), more dedication (Patrickson and Hartmann 1995; Bennington and Tharenou 1996) and have lower absenteeism (Seedsman 1996; Steinberg et al 1998; Gringart, Helmes and Speelman 2005). Similarly, others have found that MWs have fewer accidents (Seedsman, 1996; Steinberg et al 1998), have a greater work ethic and lower job turnover, and possess greater knowledge (Steinberg et al 1998). It is interesting to note that MWs are considered more presentable, punctual, responsible and wiser (Gringart et al
Generally, MWs have been found to be more positive about their work and have higher morale (Bennington and Tharenou 1996), and offer a good return on expenditure (Hayward et al 1997). Other Australian empirical studies have found mature age workers also have a greater level of engagement with the business in the form of job satisfaction, organisational commitment and intention to stay (Vrisakis and Langford 2007). All the attributes above are able to contribute to productivity if supported with best HRM practices.

**Diversity and productivity**

Diversity management, particularly with regard to the mature worker, is still an area which could be further developed (Critchley 2004). Richard (2000) argues that diversity provides value through ensuring a variety of perspectives that is rare in that very few firms have achieved significant levels of diversity and that socially complex dynamics inherent in diversity lead to its inimitability. He found in a sample of banks that diversity was positively related to productivity, return on equity and market performance for firms engaged in growth strategy (Richard 2000:166). Locally, a recent case study shows that an age-neutral recruiting policy which led to a diverse workforce produced greater stability, lower levels of absenteeism and a less than 2 per cent staff turnover rate (Selby Smith, Smith and Smith 2007). A new regional manufacturing plant had set out to recruit a high quality workforce in an area of low unemployment and was inundated with 600 applications from all age groups for 80 positions. An age-neutral selection process resulted in 60 per cent of employees being aged more than 50. While the selection process was responsible for producing the mature profile of the workforce, the authors maintain a good selection process will produce a balanced, if not mature workforce, without the need to change an organisation’s policy to specifically hire mature workers (Selby Smith et al 2007:65). In other words, an age-neutral selection process can target the attributes the organisation is seeking. If a firm wants, for example, reliability and a low staff turnover, the selection process will likely provide a greater proportion of MWs.
Our discussion of diversity concerns how organisations might better utilise the skills of all workers while removing the barriers and impediments that exist in most human resource management practices. Impediments generally relate to both the business and institutional case for diversity. In turning to the business case for diversity, this is based on the view that diversity is a valued and important function of the human capital pool (De Cieri and Kramar 2008). According to Kramar (2004) however, most Australian businesses pay lip service to diversity. This means that while businesses might recognise diversity as important, organisational programs promoting a diverse workforce and equivalent HRM practices are poorly implemented. While the business case suggests that all workers regardless of sex, nationality and age are of equal value and important in the total human capital pool, there are few programs at the organisational level that enable organisations to fully utilise the MW pool.

**HRM best practices and productivity**

There is evidence that superior HRM practices have a positive effect on labour productivity resulting in lower employee turnover, greater productivity and corporate financial performance (Huselid 1995:667). Based on a RBV empirical study of HR best practices, Koch and McGrath found that organisations which use more sophisticated human resource planning, development and recruitment and selection strategies, gained positive and significant effects on labour productivity, particularly in the case of capital intensive organisations (Koch and McGrath 1996:37). A more recent study found a positive connection between an attractive workplace and financial performance above those of competitors with a less attractive workplace (Smithey Fulmer, Gerhart and Scott 2003:987). Although there is little evidence on how HR practices impact on key employee attributes such as attitude, it is possible that HRM best practice does influence aggregate employee attributes such as firm-specific skills and behaviours (Smithey Fulmer et al 2003). A study by Murray and Donegan (2003), for instance, found empirical evidence for the view that increasing the learning skills of employees was directly linked to increases in firm performance. A further study has found that efficient HR practices lead to higher performance by developing and reinforcing employee resources which are valuable in a
competitive environment (Collins and Clark 2003). Here the authors found that a set of network-building HR practices among senior management led to higher firm performance measured in terms of both sales growth and share performance (Collins and Clark 2003: 747).

In RBV terms, HR policies and practices may be valuable because they are socially complex and historically sensitive making them hard to replicate (Boxall 1996:67). More sophisticated HR policies can also represent a significant source of competitive advantage. Firms which are better able to locate and develop employees are generally more effective than competitors (Porter 1985). But hiring and developing human resources is not enough to ensure competitive advantage – deployment is critical because unless human resources are put to productive use, their potential is not fulfilled (Hatch and Dyer 2004). Selection, development and use are a sequence of human resource management functions that represent increasing human capital, increasing firm individuality and decreasing imitability (Hatch and Dyer 2004:1158).

At a time of low unemployment and skills shortages, researchers have found that improved labour productivity is related to planning for future labour needs (Koch and McGrath 1996:350). Koch and McGrath’s (1996) study showed that superior practices in areas such as resource planning, recruitment and selection had positive and significant effects on productivity (337). Training was also found to be inimitable by increasing individual and organisational skills not easily duplicated (351). Some suggest that career development has lacked importance in recent years (Hite and McDonald 2008), yet a firm’s ability to generate rents (described as superior sources of profitability by Marchington, Carroll and Boxall 2003:8) depends largely on its employees’ competencies (e.g. knowledge, skills and attitudes). Employees require, for instance, skills in tracing work-related problems and solving them (Doorewaard and Meihuizen 2000).

But with skills shortages in the labour market and rapidly changing product markets, HR practices are now even more important to service organisations’ success (Doorewaard and Meihuizen 2000:39). Reminding us that sustainable competitive advantage comes from a combination of the
human capital elements outlined above and supporting HR processes, Wright et al thought it likely that if a firm had good people with good skills and behaviours, it would also have good management practices (Wright et al 2001:706). Unfortunately, when it comes to MWs, research indicates that traditional stereotypes prevail for people over 40 (Callanan and Greenhaus 2008; Parr and Murray 2004). An ‘ageist’ culture appears to be institutionalised in organisational policies and practices and is rarely questioned (Steinberg, Donald, Najman and Skerman 1996; Brooke and Taylor 2005; Murray and Syed 2005; Loretto and White 2006). This is partly due to the fact that organisations of the past have not implemented diversity policies as discussed earlier. It is also indirectly related to poor strategies of attracting, developing and retaining employees (Holland et al 2007) throughout their careers and as they approach retirement age. The latter authors argue that the shortage of skills is a crisis that demands better HR practices. We suggest that Australian companies are not responding appropriately to these issues. Our discussion points to the need for best practices in HR policies such as better recruitment and selection, and training and development. For instance, a recent study by Holland et al (2007) of 1371 Australian HR professionals found that there were lower levels of resource allocation in the critical areas of retention and development such as job design, general training, skill development, careers and diversity management. We contend, however, that a direct link exists between a firm’s competitive advantage and the quality of the firm’s workers which is consistent with research thus far (Wright et al 1994; Collins and Clark 2003; Marchington et al 2003; Holland et al 2007). In using our interpretation of the RBV model and its influence on competitive advantage (Figure 1), it appears that there is still a ‘a major weakness in Australian organisations coming to terms with the importance of retention and development as a source of competitive advantage in the war for talent’ (Holland et al 2007:259).

**Conclusion**

Australian employers are not prepared for the needs of the ageing workforce which reflects an inadequate understanding of the potential business impact of anticipated retirements (Hudson 2004; Infohrm 2007; Manpower 2007). At a time when employers will be struggling to find
and retain talent at all levels, many organisations have wound back their commitment to HR resources (Callanan and Greenhaus 2008). Employers have paid less attention to the career development needs of baby boomers for various reasons including flawed perceptions about employing older workers. There has been, for example, a presumption that workers aged more than 40 do not require career management. Given, however, the dual intersection between improved life expectancy on the one hand and competing labour demands on the other, we suggest that firms ought to increase best practices related to career management and development (Callanan and Greenhaus 2008:80).

Increasing evidence suggests that mature workers will be required by firms, not least because of skills shortages but also because people are working beyond retirement age. Based on our model of human capital inputs that create competitive advantage (Figure 1), we contend that mature workers are a valuable and non-imitable resource. It appears that policy makers have embraced human capital theory to promote the employment of older workers and HR practices need to follow. Our discussion suggests that mature workers increase labour stability leading to lower staff turnover, reduced recruitment and training costs, and a more loyal workforce. Changing HR practices in all these areas will benefit all employees including those of the smaller cohorts which follow the baby boomers, helping attraction and retention across the board. Whether organisations are prepared to undertake this change – and gain competitive advantage from such a move – warrants more research at all levels of business and government. With many baby boomers staying in or returning to the workforce, HR practices will need to effectively utilise four generations - the Y and X generations, the baby boomers and the more mature – perhaps for the first time since before the industrial revolution when every member of the family worked during peak periods of agricultural production. Skills based, rather than age based policies are seen as potentially the most productive as the emphasis is on an overall employee diversity program not policies only for one segment – mature workers (Brooke and Taylor 2005; Bourke, 2006; Selby Smith et al 2007).
References


ABS (1999), Australian Bureau of Statistics, \textit{Australian Social Trends, 1999} (4120.0), Canberra.


Critchley, R (2004), *Doing nothing is not an option!* Thompson South-Western, Mason, Ohio.


Infohrm (2007), *Global approaches to workforce planning: What is working?*  


Manpower (2007), *Older worker recruiting and retention survey, global results*,  


Steinberg, M, Najman, J, Donald, K, McChesney-Clark, G and Mahon, C (1994), Attitudes and practices of employers and employees towards older workers in a climate of anti-discrimination, Department of Social and Preventative Medicine, University of Queensland, Brisbane (cited in Brooke and Taylor, 2005).

Steinberg, M, Walley, L, Tyman, R and Donald, K (1998), Too old to work? Pps 53-68 in Patrickson, M and Hartmann, L (eds), Managing an ageing workforce, Woodslane Pty Ltd, Warriewood, NSW.


