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RESOURCE BASED VIEW OF FIRM: AN EFFECTIVE BUSINESS GAME PLAN

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ABSTRACT

How to perform better or outperform competitors is the most important strategic question which strategy scholars and managers have been continuously trying to answer, about which still there seems to be no consensus. This question has become more baffling as to why some companies in an industry or strategic group perform better than others, while some are under performers. Whereas some scholars have made attempts to explain differential performance through external factors like market competition, the others have resorted to internal factors like organizational capabilities of performance and lately some have tried to strike a balance between the two. However, the debate is on about which factors matter most in achieving competitive advantage and organizational superior performance. This debate is of great strategic importance to managers as their competitive strategy formulation is greatly influenced by the orientation they take. In this context this paper revisits the resource based view of firm literature to give an overview of the connections between resources and competition.

Key Words: Resources, Competition, Competitive Advantage, Performance

INTRODUCTION

How to compete is always the most relevant and vital area of study in the field of strategy. Rather it is the core of this area around which all other concepts revolve. It has found different answers in different eras and will continue to do so and evolve with the advancement in time. In this evolution it has seen dominance of market or environmental perspective or positioning school for defining the performance and hence the driving force for strategy formulation. In this era the strategy was external or outward dominated, but it failed to explain the unequal performance of close competitors or different players in a strategic group or in an industry facing same environment or market conditions. This led to the emergence of inward looking perspective of strategy formulation commonly known as resource based view (RBV) of firm. Although, it is of recent origin in the field of strategy, but its origin can be traced back to the early models of economics dealing with imperfect competition, through the work of evolutionary economists to the contributions of strategy and marketing scholars.

Although resource based view of firm builds on some of the earlier work of industrial economists, it has been widely welcomed in the realms of strategy and marketing. Its influence on strategy and marketing can be seen in Day's (1994) work on marketing capabilities and in the work of Hunt and Morgan (1995; 1996) on competitive advantage. In international marketing it has been explicitly adopted as a framework for analyzing performance (Hooley et al 1996) and for describing dimensions of positioning strategy (Hooley, Moller and Broderick 1998). It has been growing in popularity since 1980s in the strategy and marketing literature with considerable impact on other areas of business literature. It has gained this popularity as it addresses the question of how to compete by focusing on the nature of the firm to develop a theory of competitive advantage. Its basic assumption is that firm strategy and efforts primarily focus on how to achieve a sustainable competitive advantage, which translated to simple terms means how to compete or play the game of business effectively in the face of competition to emerge as winners. Thus it is imperative for strategists to learn to play the game of business to achieve Sustainable competitive advantage, which enables them to earn above-average returns or economic rents or. This makes one to focus on how to achieve and sustain competitive advantages to which resource-based view holds that the possession and effective deployment of certain key resources, having the characteristics like unique value, barriers to duplication and appropriability lend sustainable competitive advantage to holding firms. Therefore, this view emphasizes the development of competitive strategies on the basis of firm resources, which calls for identification, development and effective use of these key resources for gaining sustainable competitive advantage.

While RBV has been a welcome addition to the field of strategy, it has been mainly criticized for its inward focus. Hooley, Moller and Broderick (1998) criticized it for being inward focused which risks ignoring the nature of market demand, though other contributions in the strategy literature highlight the links between internal resources and market conditions (Amit and Schoemaker 1993; Collis and Montgomery 1995). Against this backdrop and increasing popularity of resource based view the current paper is an attempt to review RBV from sustainable competitive advantage point of view and to educate strategists and managers about it and the implications thereof for different areas of a firm.

BACKGROUND

The concept of resource based view of firm is among somewhat newer concepts in the field of business and strategy and departs from earlier models by focusing on the firm heterogeneity. It is firmly grounded in the early economic models of monopolistic competition (Chamberlin 1933). However, it was represented in a fragmented manner till 1980s. Its precursor or the earliest mention of the potential importance of firm-specific resources can be traced in the work of economists such as Chamberlin (1933) and Robinson (1933). This was subsequently developed by Pen-rose (1959). These economists focused on firm heterogeneity rather than the market structures, and posited that firms' unique assets and capabilities are vital factors contributing towards imperfect competition leading to attainment of super-normal profits. Chamberlin (1933)

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identified some of the key capabilities of firms like technical know-how, reputation, brand awareness, the ability of managers to work together and particularly, patents and trademarks, many of which have been revisited in the recent strategy and marketing literature (Day 1994; Hall 1992) as durable assets or sources of sustainable competitive advantage. Penrose (1959) has provided its detailed exposition by arguing that 'a firm is more than an administrative unit; it is also a collection of productive resources the disposal of which between different users and over time is determined by administrative decision. When we regard the function of the private business firm from this point of view, the size of the firm is best gauged by some measure of the productive resources it employs (Penrose 1959)'. The argument underscored important dimensions of the resource-based view and it has prompted many scholars to study the role of managers in the development and deployment of resources (Amit and Schoe-maker 1993; Barney 1986, Barney and Zajac 1994, Lei, Hitt and Bettis 1996; Schoemaker 1992) and the relationship between resources and the scope of the firm (Chatterjee and Wernerfelt 1991; Markides and Williamson 1996; Prahalad and Hamel 1990; Robins and Wiersema 1995). She is also credited for distinguishing resources from services, by arguing that it is never resources themselves that are inputs into the production process but rather it is the services that these resources can render. She sees this distinction as the source of uniqueness of each individual firm and it is a distinction that has many parallels with the separation of resources and capabilities that characterizes much of the strategy literature (Hill and Jones 1998). Likewise, it is argued by her that 'internal' resource configurations both facilitate and constrain the direction of expansion of the firm. She further opines that the expansion of firm is influenced by its own previously acquired or inherited resources in addition to those a firm must obtain from the market in order to carry out the production and expansion programmes.

This internal orientation however, remained somewhat under studied in the field of business till Birger Wernerfelt (1984) hinted at the richness of the approach and coined the term resource-based view of the firm. However, it did not show much progress in 1980s till dissatisfaction with the industry structure approach of Porter surfaced towards the latter part of 80s when through some empirical researches it was reported that performance differs, not only between firms in the same industry (Cubbin 1988; Hansen and Wernerfelt 1989) but also in the strategic groups (Cool and Schendel 1988; Lewis and Thomas 1990). Such results motivated scholars to study firm-specific variables in more detail and a growing management literature reported companies with particular skills and capabilities out-performing their rivals (Coyne 1986; Ghemawat 1986; Grant 1991; Hall 1989; Stalk, Evans and Schulman 1992 and Williams 1992).

RESOURCES AS SOURCES OF SUSTAINABLE COMPETITIVE ADVANTAGE

Gaining sustaining competitive advantage is the main concern of managers and is at the center stage of business and strategic management literature. It is important for business organization to have long term superior performance in terms of financial measures to satisfy the stock holders apart from other stake holders. Thus, scholars have been trying to identify the mechanism and sources of gaining sustainable competitive advantage along with the factors that influence it. Customers value is one which is expected to lead to superior performance, measured in conventional terms such as market-based performance (market share, customer satisfaction) and financial-based performance (return on investment, shareholder wealth creation; Bharadwaj, Varadarajan and Fahy 1993; Hunt and Morgan 1995). Literature also emphasizes a link between the delivery of value to customers and the level of customer satisfaction leading to potential market share and profitability gains (Kotler 1994). Thus identification and nurturing of superior customer value generating activities and resources are the main concern of strategists. It has now a day's become more important to identify how such sources can be sustained as value drivers for a longer period of time, in the face of, equalizing product and process technologies and increasing customer expectations. Today competition is among the equals and thus it has become all the more difficult to sustain an advantage which can be matched, copied, or duplicated by the competitors. Therefore, it has become imperative for managers to understand the characteristics of such advantage generating resources and for researchers to explore them more robustly.

Although an organization is in possession numerous resources, but all may not be at par from strategists point of view. Resource-based view of firm in line with such thinking holds that all resources do not possess the potential or equal potential to be sources of sustainable competitive advantage. Barney (1991) opines that resources creating advantage must meet four conditions, viz. value, rareness, inimitability and non-substitutability while Grant (1991) suggests that levels of durability, transparency, transferability and replicability are important determinants and Collis and Montgomery (1995) argue that resources must meet five tests viz. inimitability, durability, appropriability, substitutability and competitive superiority. Taking these characteristics further Amit and Schoemaker (1993) proposed eight criteria including complementarity, scarcity, low tradability, inimitability, limited substitutability, appropriability, durability and overlap with strategic industry factors. Notwithstanding the list of characteristics of advantage generating resources a simple and quick test would be to check whether such resources are seen as valuable by customers in the competitive environment and these valuable resources have the ability to sustain the competitive attacks over a longer period of time. This capability not to erode superior customer value in the short run or decrease the gap between the value delivered by the firm and its best competitor is of unique to firms which they should guard against any potential attacks by creating barriers for rivals so that their value becomes non-duplicable and imperfectly substitutable. One final test for such resources is that they should have the capability to add to the profitability of the firm in superior way, by creating a win-win situation with customers, suppliers, employees, environment and other stakeholders.

While such capabilities are very vital for the superior performance of organizations they however are varied or complex as far as their nature or origin is concerned and as such have been variedly classified in the literature like competencies, core and distinctive competencies, capabilities, skills, key or core skills. To overcome this ambiguity, the label *resources* is best adopted as a general, all-embracing one, which may comprise of three distinct sub-groups, namely tangible assets, intangible assets and capabilities (Fahy and Smithee 1999). Tangible assets refer to the fixed and current assets of the organizations that have a fixed long run capacity (Wernerfelt 1989). Tangible assets have the properties of ownership and their value is relatively easy to measure (Hall 1989). The book value of these assets is assessed through conventional accounting mechanisms and is usually reflected in the balance sheet valuation of companies (Fahy and Smithee 1999). The other defining characteristic of tangible assets is that they are transparent (Grant 1991) and prominently visible to competitors and thus prone to copying or duplication and as such are week sources of sustainable competitive advantage.

In contrast to tangible assets intangibles are relatively invisible to the competition and thus less susceptible to copying by competitors. They contribute towards the significant differences between the stock market valuation and the balance sheet valuation of publicly quoted companies (Grant 1991; Rumelt 1987). They include trademark, patent, brand and company reputation, company networks and databases (Hall 1992; Williams 1992). They have relatively unlimited capacity and companies can exploit their value by using them in-house, rent them or selling them (Wernerfelt 1989). Similarly, capabilities, often described as invisible assets, have proved to be more difficult to delineate (Itami 1987) and as such hard for competitors to comprehend, conceptualize and replicate. Essentially, capabilities comprise of the skills of individuals or groups, organizational routines and interactions through which all the firm's resources are co-ordinated (Grant 1991) meaning that they also include organizational culture, teamwork, and trust between workers and management. Individual skills, being highly tacit, are inimitable and non-substitutable (Fahy and Smithee 1999), and as such offer good source of sustainable competitive advantage. They are even more difficult to duplicate where capabilities are interaction-based, due to their causal ambiguity and therefore the resource based literature has tended to favour capabilities as the most likely source of sustainable competitive advantage (Collis 1994). Therefore, intangible assets and capabilities offer a great source of sustainable competitive advantage towards which the strategists and the researchers should pay heed to use them to their advantage in the market place and also to leverage the potential of other assets to harness the firm performance.

STRATEGIC IMPLICATIONS

Resource-based view of the firm has made a significant direction changing contribution to the field of strategic management by unfolding the reasons for varied performance among the competitors in the same environment and by making strategists to look inwards for identifying the determinants of the sustainable competitive advantage. It has also contributed in significant way to explain as to why some resources generate more advantage which has led to the answer of perplexing question why resource asymmetries and consequent competitive advantages persist even in conditions of open competition. Notwithstanding this, it also recognizes the role of industry effects by focusing on the relative importance of both firm and industry factors (Henderson and Mitchell 1997). Thus resource-based view has the potential to influence competitive strategy in many ways; as such it has important implications for strategic management some of which include.

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Strategy Formulation

In strategy formulation assessing the external and the internal environment are the basic steps to start with. While for understanding external environment managers have relied extensively on Porter's (1980) five forces model, the internal environment has been understood through strengths and weaknesses as provided In the SWOT framework. However, in recent past, reservations have been noticed with regard to the efficacy of the SWOT framework, and in practice Hill and Westbrook (1997) have observed that SWOT analyses tends to produce a fairly indiscriminate list of variables, leading other authors to advocate that its use be discontinued. In contrast, a conceptually grounded framework for assessing strengths and weaknesses is offered by resource-based view of the firm. While it focuses on the value and the durability of competitive advantage, it at the same time allows for the examination of strengths and weaknesses in terms of the under lying dimension of sustainable competitive advantage. It classifies resources as per their degree of difficulty of duplicity and thus makes managers to evaluate resources in terms of their durability as sources of competitive advantage. In this sense intangible assets and capabilities offer better opportunities as sources of competitive advantage. Therefore, strategists should check for such characteristics of the firm resources and strengths to consider them as advantage generating resources/strengths and focus on them while developing the internal profile of firm and base competitive strategies on them for long term superior performance.

Strategic Marketing

Segmentation, targeting and positioning are considered to be the most important pillars of strategic marketing. All the three when seen from customer orientation or customer relationship perspective are necessary for developing a long lasting and wining relationship with the profitable customers. However, in order to determine who will be the profitable customers and have the tendency to stay loyal firms should include such variable in segmentation and targeting processes itself by matching their core competencies or distinctive resources with the profile of customers. During this process not only the core resources related to the business of the firm matter but the capabilities regarding customer profiling, information sources and techniques like neurofuzzy modeling capability do matter for better identification of right customers. Positioning considered to be the most important among the components of strategic marketing is done on the basis of certain product/service/firm attributes. These may include positions based on price, premium quality, superior service and innovativeness (Hooley 1988). For a positioning strategy, based on any of them, it is possible to identify a matching resource set, which furthermore allows firms to identify 'resource gaps' that may need to be filled (Grant 1991). Therefore, the resource-based view of the firm necessitates marketing strategists to identify and focus on such resources that are capable to deliver on its desired positioning strategy. Low pricing strategy for example is believed to require resources like cost control systems, information systems, Total Quality Management (TQM) processes and procurement skills (Hooley, Moller and Broderick 1998). Contrary to this, superior quality based positioning strategy requires a quite different resources like market sensing (Day 1994), quality control and assurance, brand and reputation and supply

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chain management (Hooley, Moller and Broderick 1998), whereas when it is based on rapid innovation it requires creative thinking and innovative thinking capability along with the research and product development capabilities and skills. So, strategic marketers should concentrate on developing and nursing such resources to harness the firm performance.

Strategic Human Resource Management

While the RBV stresses on the resources, the capabilities being invisible offer the greatest potential for sustainable competitive advantage. The capabilities are mostly related to the individual or organizational capabilities including knowledge, skills and attitude of employees and organizational culture. This thinking in strategic management has made it imperative for human resource managers to think about the key human capabilities and resources in terms of their advantage generating capability and durability to withstand competitive attacks and customer demands. In line with this strategic human resource managers have started reorienting their functions and academics have also responded by introducing the subject of strategic human resources in its realms.

Strategic Operations Management

Likewise strategic operation managers have learned to base their strategies on their core competences. They have shifted towards developing the products and services as the offshoots of their core resources or competencies and divested from areas where found that resource advantage is lying somewhere else. Rather the RBV of firm has put operations again on the façade of firm strategy as it stresses on pinning the strategy on the key resources which more often than not lie in the superior operations and the inter play between operations and marketing.

CONCLUSION

The dimension of firm heterogeneity in the achievement of competitive advantage has been captured by the resource based view of the firm, which per se was shift in the strategic thinking that used to focus too much on market environment and positioning for determining the basis of competitive advantage. This shift has also benefited by categorizing the resources in the degree of their value and ease of imitability by rivals. Thus a group of most valuable and hard to imitate resources are identified, nurtured and used as the basis of the sustainable competitive advantage. This allows firms to focus and invest optimally in these key or distinctive resources and as such is a better framework than SWOT analysis which generates a general list of strengths/weaknesses without prioritizing them. Thus resource based view has gained increased popularity among managers and researchers in the field of competitive advantage and strategy formulation given its focus on resources particularly intangible assets and capabilities which have great potential as sources of sustainable competitive advantage. This current paper has been an attempt in this direction.

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