

Resource based view
of a company shows
their sustainable
advantage



FIGURE 1 The Learned, Christensen, Andrews and Guth (LCAG) Framework (1969)

The resource-based view of the firm was first coined by Birger Wernerfelt in 1984 and a hint of the richness that lay in the approach is evident in his description of the article as a “ first cut at a huge can of worms”. However, the concept remained dormant for much of the 1980s. Then towards the latter part of the decade increasing dissatisfaction with the Porterian focus on industry structure was becoming apparent. Empirical research examining performance found differences, not only between firms in the same industry but also within the narrower confines of strategic groups within industries. This resulted in increased interest in firm-specific variables and the number of contributions claiming to adopt a “ resource-based per-spective” mushroomed. A burgeoning management literature highlighted examples and cases of where companies with particular skills and capabilities were able to out-perform their rivals. A number of industrial economists contributed rigorous ex-aminations of why performance differences persisted in situations of open competition which has become one of the core insights of the resource-based view. In 1994, Wernerfelt’s 1984 article was awarded the Stra-tegic Management Journal best paper prize for reasons such as “ being truly seminal” and “ an early statement of an impor-tant trend in the field” (Zajac 1995) indicating that the resource-based view, with its cogent mix of economic rigor and management reality, had assumed centre stage in the strategic management literature. Before going on to examine the insights of the resource-based view in more detail it is important to note its origins and assumptions. It is firmly grounded in early economic models of

monopolistic competition (Chamberlin 1933) and its focus on firm heterogeneity departs from neo-classical microeconomics and Bain/Mason Industrial Organisation which characterise the behaviour of the representative firm. Its relationships and similarities with other branches of industrial economics have been well documented. This economics base helps to explain its potential appeal to marketers as marketing itself has borrowed more heavily from economic theory than from any other discipline. But it means that on the issue of exchanges between the firm and its environment, it places primary emphasis on economic as opposed to social or political exchanges with an emphasis on rationality and view organisational actors as rational beings assessing choices and making decisions which maximise their self interests. However, some economists have noted the limits of rationality. For example, Penrose (1959) notes the importance of the inherent characteristics of individuals and the relationships between these individuals while Nelson (1991) argues that it is nonsense to presume that a firm can calculate an actual 'best' strategy. Nevertheless, the resource-based view may have less appeal to scholars from the psychological and sociological traditions in marketing. Equally, though the potential benefits of integration with these traditions should not be ignored as is demonstrated by recent contributions that combines institutional theory and the resource-based view in an analysis of sustainable competitive advantage.

Limitation

When building on the resource based value, it seems to assume what it

seeks to explain. It dilutes its explanatory power. As an example, some <https://assignbuster.com/resource-based-view-of-a-company-shows-their-sustainable-advantage/>

might argue that the resource based value defines than hypthesizes, that maintained performance differences are the results of variation in resources and capabilities among company. The difference is not much but it makes the direct point more difficult to understand.

The resource based view also lacks of clarity related to its premise and also clear boundary impedes fruitful critique. As the theory lacks details, the hypothesis and definition can be invoked again. As again it can be argued that resources are potential source of competitive heterogeneity. Competitive heterogeneity can get for reasons else than sticky resources (or capabilities). Competitive heterogeneity is defined as systematic performance differences among competitors who are close.

Firm 1 Sony

Besides, in order to regain Sony's competitive advantages, they appoint the first foreign chairman, Howard Stringer to head the company with the aim to secure Sony's main ground and hope that an outsider will assist Sony to think outside the box. As Hamel & Prahalad (1994) suggest, intellectual leadership are essential to develop industry foresight, anticipating which trends are likely to emerge, so it is important to build Sony's new core competence to shape the industry.

However, Priem and Butler (2001) have shown that the Resources Based View, as currently constituted, contains a theory of sustainability but not a theory of competitive advantage (i. e., value creation). They argue that “ simply advising practitioners to obtain rare and valuable resources in order to achieve competitive advantages and, further that those resources should <https://assignbuster.com/resource-based-view-of-a-company-shows-their-sustainable-advantage/>

be hard to imitate and non-substitutable is not very helpful in providing practical help” (Johnson et al, 2005: p155).

On the other hand, as for “ outside in” which is the Positioning view, Mintzberg et al (1998) argue that positioning is important and had develop the Positioning School. Sony also believes that the external business environment will shift the strategy of the organization. Finlay (2000; p11) suggest that “ organization alter itself and the products and services it offers in order to match the needs of customers in its chosen marketplace which is a market-based approach, so called because the organization looks to the marketplace to see how it should act and how it should evolve”. Besides, based on the environmental factors, Mintzberg et al (1998) developed the environmental school which argue people in strategic management must consider the range of decisional powers available, given the forces and demands of the external context. Sony insufficient in responding to the external market had caused them to lost ground in key growing areas and their strategy must be able to cope with the external environment.

Moreover, Porter (1991) strongly believe that making choices about how organization position their company in its competitive environment is what strategy is all about and emphasize on the importance of positioning view. He argues that organization can sustain competitive advantages by implementing the generic strategies by position themselves either being cost-leadership, differentiation or focus (Porter, 1985). Sony had positioned themselves with a differentiation strategy which seeks to provide products or services that offer benefit different from those competitors and that are widely valued by buyers (Johnson et al, 2005). Sony are rewarded with a <https://assignbuster.com/resource-based-view-of-a-company-shows-their-sustainable-advantage/>

premium price with its uniqueness (DeWit & Meyer, 2004) that help them to gain greater competitive advantages.

However, Bowman & Asch (1996: p36) critics that “ a final criticism of Porter’s approach stems from our experience of trying to use these concepts with top management teams wrestling with the strategies of their organization. In addition to the lack of clarity surrounding the generic strategies, the generic strategies present an essentially static approach to competition”. Hamel & Prahalad (1994) also argue that “ the traditional competitive strategy paradigm (e. g. Porter, 1980) with its focus on product-market positioning, focuses only on the last few hundred yards of what may be a skill-building marathon.”

Firm 2

Corporate Social Responsibility: A Resource-Based View of the Firm

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This section reviews the application of the corporate social responsibility (CSR) as an intangible dynamic resource, its application in the formulation of marketing strategies and its association with business performance, using the theoretical framework of resource-based view of the firm (RBV).

Corporate social responsibility (CSR), just like business ethics, has become a popular catchphrase in business. Yet, what exactly does it mean? According to Lord Holme and Richard Watts in a publication by the World Business Council for Sustainable Development called “ Making Good Business Sense”

CSR is “ the continuing commitment by business to behave ethically and <https://assignbuster.com/resource-based-view-of-a-company-shows-their-sustainable-advantage/>

contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large” (Moir, 2001).

The concept of CSR has its own share of ardent opponents and equally virulent detractors. Opponents of CSR state that the sole purpose of businesses is to maximize the wealth of its owners (Friedman, 1962, cited in Moir, 2001) and as long as they obey the law, companies bear no responsibility to society as a whole. Indeed, this is the way traditional businesses operate and is a feature of the capitalist economy. The most rapacious opponents of CSR claim that giving away money to charity and other causes deprives shareholders of profit which should legally be theirs and that management is thieving off their income. Some insist that CSR is a worthless form of window dressing that diverts precious time and resources from doing activities that actually bring income to the business (Martin, 2002, cited in Gyves and O’Higgins, 2008). Others claim that it is the responsibility of governments to provide social programs and not companies. Supporters of this traditional viewpoint assert that CSR is incongruent with the goal of shareholder wealth maximization and becomes a stumbling block to free trade. While this may be true in theory, business ethics (as discussed in an earlier section) dictate that companies should do more than make money.

Theoretical Framework

CSR is a new area of research in business studies that encompasses many disciplines such as accounting and management. At the heart of CSR

research is explaining why CSR is adopted by companies. We shall see the legitimacy theory.

Legitimacy Theory

The legitimacy theory postulates that organizations continually seek to ensure that they operate within the bounds and norms of their respective societies by attempting to ensure that their activities are perceived by outside parties as being 'legitimate' (Moir, 2001). Organizations are endowed with 'legitimacy' as long as their activities are congruent with the goals of societal expectations encompassing economic, environmental and social issues (Robins, 2008). In other words, there exists an unwritten social contract between corporations and society. A breach of this social contract results in sanctions forced upon it by society (Enquist et al, 2006). This may occur in the form of legal ramifications, curtailment of financial and human resources and an overall reduced demand for the goods and services produced by the company. Therefore, through CSR a company endeavours to legitimize its operations in the public's eye, by undertaking CSR to show that its actions are desirable, appropriate and proper. There are three levels this can be done: pragmatic, moral and cognitive (Gyves and O'Higgins, 2008). Empirical evidence in support of this theory is amply found in the petroleum industry where numerous oil spills and accidents have prompted major oil companies to embark on CSR to improve their image (Meehan et al, 2006).

Legitimizing a corporation's activities through CSR is done in one of two ways depending on the situation (Meehan et al, 2006). The first method is being reactive in which the corporation actually changes its behavior and <https://assignbuster.com/resource-based-view-of-a-company-shows-their-sustainable-advantage/>

discloses this to the relevant public to inform and educate them in order for the corporation to maintain or regain legitimacy. For instance, a bank or an insurance company embarks on a community development program that it has never done before and wishes to inform this to the public through corporate disclosure. The second method is by being proactive. Instead of modifying a company's behavior after an untoward incident, the company seeks to change or manipulate the definition of legitimacy or social expectations to suit the existing behavior. For example, all American oil companies have provided more disclosure in their annual reports after the Exxon-Valdez Alaskan oil spill, even though the incident affected only one company (Tench et al, 2007). Hence, the three challenges facing a company's legitimacy are gaining, maintaining and repairing it (Galbreath, 2009).

Article 3 Application of the resource-based view in the Brazilian autoparts sector.

Over the last years researchers have looked inside the internal environment of the firm, in search for answers to the question of competitiveness. Since then, an analytical approach has been in the spotlight: the Resource-Based View of the Firm or simply RBV. According to this approach, the firm is considered a unique bundle of productive and strategic resources, which lead them to different levels of performance. Hence firms with resources that are productive, rare, inimitable, complex, complementary or even ambiguous to competitors can utilize them as elements of sustention of their competitive strategies.

This emphasis on RBV, instead of the pure view of Industrial Organization and Organizational Economy, occurred for several reasons. One reason is that never had the rate of change in terms of new products, new technology, and shifts in customer preferences increased so dramatically. Obviously, a static photograph of an industry in movement was not suitable for the formulation of strategies in an increasingly dynamic environment.

Furthermore, the traditional frontiers of the industry are becoming more and more undefined, since many firms are merging or overlapping, especially those related to information technology (Kostopoulos et al., 2002).

In the last twelve years, strategic management recovered the reputation and influence that it had lost at the end of the 70's and at the beginning of the 80's, both as a business practice and as a field of study in the academic sphere. As a whole, the topic is becoming, if not more coherent and homogeneous, then certainly less fragmented than it was twenty years ago.

The recovery of the prestige was mainly due to the school of strategic thought known as the "Resource-Based View", which is hereinafter referred to simply as RBV. These days RBV is perhaps the most influential structure for understanding strategic management, since it incorporates concepts and stimulates discussion and interaction among three large areas of research: strategy, organizational economy and industrial organization (Mahoney and Pandian, 1992; Rugman and Verbeke, 2002).

The popularity of RBV basically focused the attention of researchers and academicians on the black box that was considered the firm. During the 80's, major developments in strategic analysis were focused on the association

between the firm's strategy and the external environment, such as the papers that describe the analysis of the industry's structure and the environmental conditions that favor high performance levels at firms (Grant, 1991; Barney, 1991).

Conclusion

Resource based view is tautological and considered as self verifying. Competitive advantage is defined as a value creating strategy which is relying on resources which are valuable. Resource configurations which are different can create similar value for firms and won't be competitive advantage. Product market's role is not developed in the argument and the theory has limited prescriptive implications.

There are some other criticisms which are summarized as below:

It is perhaps difficult to find a resource which satisfies all of the theory of resource based view. There are few assumptions which the firm can make profit in a competitive market as long as it exploits resources advantageously, but it might not be the situation. Porter's Industry Structure Analysis should be considered in this situation.

Long-term implications that flow from its premises: A prominent source of sustainable competitive advantages is causal ambiguity. This cannot be avoided as false and it leaves an awkward possibility: the firm is not able to manage a resource it does not know exists, even if an environment which changes needs this. Through such an external change the starting sustainable competitive advantage could be changed into a weakness.

Premise of efficient markets: Many research hinges on the premise whereby markets in general or factor markets are efficient, and companies are good enough of correctly pricing in the exact future value of any value-creating strategy that could go from the resource. It is argued that purchasable assets cannot be sources of sustained competitive advantage, due to the reason that they can be bought. Either the price of the resource will go up to the point whereby it equals the future above-average return, or other competitors will buy the resource as well and use it in a value-increasing strategy that diminishes rents to zero.

The concept 'rare' is outdated: The definition where resources need to be unique to be able to function as a possible source of a sustained competitive advantage is not compulsory. This is due to the implications of the other concepts such as valuable, inimitable and nonsubstitutability while any other resource that follows from the past characteristics is inherently rare.

Sustainable: The lack of exact concept with regards to the concept sustainable makes its premise not easy to test empirically. It is argued that the competitive advantage is maintained if current and future competitors have ceased their imitative efforts is versatile from the point of view of creating a theoretical framework, but a drawback from a more practical point of view as there is no explicit end-goal.