Relationship between firm resources and performance commerce essay

Many researchers have point out that the relationship between firm's resources and performance are always the crucial area of interest in strategic management (Barney, 1991; Peteraf, 1993; Wernerfelt, 1984). Resource-based view (RBV) highlights the internal environment of the firm in crafting strategy to accomplish a sustainable competitive advantage in it. Consequently, RBV can be consider as the ' best' strategy route in the development of a firm's strategy. However, the relationship among strategic resource and firm performance may be quite complex and need to be examine, there is also many different factors that can influence the relationship. In fact, there is no one best strategy that will suits all situation for a firm. Moreover, RBV also been compared to others strategy development methods like Porters industry analysis. Based on this assignment, we will be focus on the contention that RBV analysis has a strong relationship with firm's performance especially in achieving a sustainable competitive advantage for certain industry only.

Resource in RBV can be defined in an extremely board way. For instance, Wernerfelt (1984) comprises all strengths and weaknesses of a firm. Concepts like dynamic capabilities (Barney et al, 2001), entrepreneurship (Alvarez and Busenitz, 2001) and management (Barney, 1994; Mahoney, 1995) are usually regarded as strategic resources. Similarly, RBV also has been defined as stocks of available factors that are owned and controlled by the firm, these factors can be classified into physical, reputational, organizational, financial, human intellectual and technological, which are transformed into final products or services efficiently and effectively (Amit and Schoemaker, 1993; Capron and Hulland, 1999). As we know, resources

are exploited by people, not by themselves. Human beings have differ considerably concerning to the sorts of skills they have, also their degree of skilfulness and their intelligence to view opportunities (Eisenhardt and Martin, 2000). According to Brown et al. (2001), in order to develop entrepreneurial performance within the firm, managers must inspire the coordination of key resources, allow flexibility, encourage members to search for opportunity and rewarding them for pursuing new opportunities in order for it to prosperous. Besides, RBV assists management to create a culture where there is valid and value for new knowledge by encouraging the perplex process of recombining existing knowledge with new knowledge (Prahalad, 1998; Shih-Wei, 2005; Montalvo, 2006).

RBV can be treat as the ‘ best’ strategy route in the development of a firm strategy, because RBV analyze and explain resources of the firms to grasp how organizations accomplish sustainable competitive advantage. In addition, RBV centralize on the concept of hardly to imitate attributes as sources of higher performance and competitive advantage for the organization (Barney, 1986; Hamel and Prahalad, 1996). In the same manner, resources are hardly to be transferred and acquired, that need a lengthen learning curve or a major modify in the organization climate and culture, hence more difficult to duplicate by rivals because of a range of isolating mechanisms and very likely to be unique to the organization (Rumelt, 1984; Mahoney and Pandian, 1992; Peteraf, 1993; Hoopes et al., 2003). Based on Conner (1991), performance variation between organizations depends on its possession of unique inputs and capabilities. For example, Honda following RBV strategy, built its company strategy

around the firm's strength, capability and expertise in building petrol based engines, at last the company utilize it unique resource and capabilities to build a world class petrol based engines and became the largest engine manufacturer in the world.

Firm must possess valuable resources in order to build resource-based advantages. For the purpose to outperform with competitors, many RBV researchers assert that organizations must exploit the resources that they possess. An organizations succeed or fail in the marketplace is depend on the particular perspective on an ' inside-out' view of firm from RBV (Dicksen, 1996). According to Barney (1986) valuable resource ' must enable a firm to function and behave in ways that lead to high sales, low costs, high margins, or in others ways add financial value to the firm'. A firm's ability to innovate successful is also a factor of unique capability which is sustainable and appropriable. For example, an innovative products such as Apple's iTunes and iPod. The company's first class innovation in product design and practicality is proving not an easily act for rivals to copy. Apple avoid to sit back complacently, although the company maintain at the front position of the digital media with its iPod and iTunes online stores. In 2007, Apple introduce of its iPhone and entered into the mobile phone market, this continuous innovation and product creation keeps rivals such as Sony, Samsung guessing about what products Apple will bring out in the future and provides a factor of outperform as rivals struggle to substitute their achievement. In other words, strategic resources are also concerns on non-monetary factors such as knowledge based, human resource management

activities on their customer service department to result in a competitive advantage.

- To obtain a competitive advantages over the others is easy, however to achieve a sustainable competitive advantage is rather hard. Way to maintain sustainable competitive advantages for sustained superior performance, firms must be unique and core competencies and resources that are valuable, rare, imperfectly imitable and non-substitutable (Barney, 1991) as well as visualize of value-creating ways to exploit them. Intangible resources such as intellectual, technological resources are more appropriate than tangible resources which are human, financial resources to generate competitive advantage (Hitt, Bierman, Shimizu and Kochhar, 2001). Particularly, intangible resources like knowledge allow firms to add up value to incoming sources of production (Hitt et al., 2001). It indicates firm's achieve competitive advantage (Prahalad and Hamel, 1990; Collis and Montgomery, 1995; Post, 1997; Markides, 1997; Bogner, Thomas and McGee, 1999). Such resource is built over time and difficult to be imitated and is valuable. For instance, Tesco, Sainsbury's and Asda all compete in the same environment, yet Tesco is a superior performer. It is not the environment that distinguishes between them but their internal strategic capabilities. It is difficult for one organization to obtain or copy the capabilities of another. Like Sainsbury's cannot readily obtain the whole Tesco's retail sites its management or its experience. As a result, Tesco is achieving a sustainable competitive advantage. On the other hand, firm must develop one or two value creating activities to some extent that creates more general value

than rivals do to attain competitive advantage. Porter (1985) point out two generic strategy, the first is lower cost strategy, to reduce activity cost by lowering the cost of the inputs than rivals, while retaining average quality and prices. Secondly is differentiation, to induce customers willingness to pay an above-average price, including value of the ancillary service or the image of the product. Managers who carrying a general knowledge of their rivals' activity sets can apply this information to analyze their position relative to its rivals (Ghemawat, 2006; Porter, 1985, 1991). Besides, Porter (1985) also identified the value chain framework to help managers in understanding, enhancing and executing a lower costs or differentiation strategy. The value chain can be defined as a general activity model that is used to decompose the firm into the single activities it manages to form value for the consumer. In conclusion, both activity-based and RBVs complement each other and share an objective of discovering and exploiting factors that lead to higher competitive performance

Even though the RBV's principle for a firm is to achieve and sustain a competitive advantage by exploiting valuable, rare, inimitable and non-substitutable resources is instinctive and theoretically satisfying, it is essential to recognize that value, rare, inimitability and non-substitutable are not completely invariables. In fact, facing of radical, volatile changes in the environment, value, rare, inimitability and non-substitutability are very considerably over time. In other words, RBV state have their fall like in the valuable attribute, the need for planning and investment to develop such resources are external factors, which means the RBV may overstate the profitability of firms by exploiting these resources, because the cost of

acquisition and accumulation had been avoided. As a result, it is difficult for the RBV to tell why firms invest in such a valuable resource instead of in other type of resources. Moreover, if the organizations want to increase their profit from the resources they possess, they have to think over the demand side attributes that effect on the final price of the product. Furthermore, in the concept of rareness resource, it does not essentially attain the competitive advantage of the firm, in spite of the resource produce a great ' rent' due to its relative shortage. Rents can be defined as the prices of services yielded by resources (Lewin and Phelan, 2002). Regardless of the rents are rare or not, in this stage rent is nothing more than the rental price of the service of the resource. There are no any profit has been earn to the firm, after paying remuneration to all the factors of production (Demsetz, 1973; Barney, 1986a; Rumelt, 1987). However, the firm may grasps some part of the rent from the possessor of resources, if the firm is gaining any profit left from the resource. Member or staff who have capabilities such as knowledge based will have benefits of bargaining power, hence being able to appropriate extra rent. Barney (1991) point out that the strategic resource possess rareness, inimitable and non-substitutable criteria may be independent of the firm, but when the belief of the heterogeneous distribution of resources is taken into account it is not easily to visualize that the resource given by the value is similar for all firms. For instance, intangible resources such as innovative capability or diverse production capabilities have been recognized as essential strategic resources and are extremely dependent of other resources in order to act properly. On the other hand, some resources might prevent firms from operating higher performance. For example, a Formula One engineer might be a key resource

for a sports car manufacturer due to his ability to built high-performance engines, while car companies with key resources in the aspects of an image for safety or high environmental standards might not be suitable to gain advantage from possessing such capabilities. These examples result the complication of resource interactions (Smith et al., 1996) and also the value of resource is different among companies.

Conclusion

According to Barney (1991), Mahoney and Pandian (1992), Porter (1991), they agree that both internal and external factors must be taken into account when analyzing firm performance. For example, if a firm is able to acquire a key resource, it often require a diversification in the product market (Anderse´n, 2007a). The result of such a diversification is to a great extent dependent on the organization's prior market experience or market that relevant to existing product lines (Pehrsson, 2004). In consequence, if a firm is not able to use its product effectively in the appropriate product market, the product will not benefit from these resources even though the company possess with superior production skills and great valuation. Therefore, firms can actually fail to attain higher performance while posses several strategic resources, if the marketing capability are poor. In conclusion, both internal and external environment are complement to each other in achieving a sustainable competitive advantage for a firm.

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