

Rbv is an influential theoretical framework management essay

[Business](#), [Management](#)



Nowadays where the competitive structure is shifting, the dynamic capabilities by which company managers integrate, make and re-configure internal and external competencies to respond to rapidly changing environments become the essence of sustained competitive advantage. The manipulation of knowledge is especially critical in such markets. Increasing technical innovations is bringing market for new products and services. To survive in this highly evolving market a company must respond quickly. In this paper we discuss about how companies develop the capabilities to succeed in changing times. The role of managers too change in great way. Many say that most of the managers fail because they compete with existing market and hence miss the entry opportunities. However, others argue that managers enter new market only when their company possess the expertise and experience needed to compete effectively. The dynamic capabilities seeks to identify and categorize the prerequisites for maintaining a sustainable competitive advantage in the market. Since dynamic capabilities are processes embedded in companies, we assume an organizational and empirical lens, rather than an economic and formal modelling. We study the nature of dynamic capabilities and how those capabilities are influenced by market dynamism and evolution over time. Dynamic capabilities are the earlier institutional and strategic routines by which managers change their resources. Then they gain and shed resources, integrate them together, and combine them back to generate new value-creating plans. Dynamic capabilities are identifiable and specific processes. Dynamic capabilities can integrate resources too. For instance, managers combine their varied skills and functional backgrounds to create revenue-producing product. The

dynamic capabilities literature stands third in major capability-based perspectives. Early researches describes these skills as the measure to renew competencies to gain coherence with the changing industrial environment. Other dynamic capabilities fixate on reconfiguration of resources within firms. Transfer processes including routines for replication and brokering are utilized by managers to replicate, transfer, and recombine resources, especially knowledge-predicated ones, within the firm. Dynamic capabilities are often characterized as unique and idiosyncratic processes that emerge from path-dependent histories of individual firms. Yet, while dynamic capabilities are certainly idiosyncratic in their details, the equally striking observation is that specific dynamic capabilities also exhibit common features that are associated with effective processes across firms. These commonalities arise because there are more and less effective ways of dealing with the specific organizational, interpersonal, and technical challenges that must be addressed by a given capability. Effective product development routines typically involve the participation of cross-functional teams that bring together different sources of expertise. These sources of expertise are essential for superior products because each addresses a unique aspect of product quality or related production. Cross-functional teams were essential for superior performance. The use of these teams enhanced the range of information that was available, and eased the coordination and overlap of manufacturing, marketing, and design tasks during the course of the process. Effective product development processes also involve routines that ensure that concrete and joint experiences among team members, such as working together to fix specific problems or par-

participating in brainstorming sessions occur. Such experiences enhance innovation by breaking down the thought worlds that arise because people with different expertise not only know different things, but know those things differently. Concrete experiences with others on the development team create a common experience base and language that facilitates communication among functionally distinct people. Dougherty (1992), for example, studied 18 product development projects in five well-established U. S. firms including Kodak and Campbell Soup. She found that common customer visits and feedback were essential for an effective product development process. Simply having liaisons between groups was not enough to ensure effective communication. Effective product development processes also have extensive external communication that is often facilitated by strong or 'heavyweight' team leaders. For example, Ancona and Caldwell (1992) found that successful product development processes were characterized by extensive communication links outside of the group, particularly leaders to buffer the group from outside influences and to garner resources. Clark and Fujimoto (1991) similarly found that heavyweight leaders who engaged in significant external communication and vision setting led more productive product development projects. Commonalities that are related to more effective routines exist for other dynamic capabilities as well. For example, successful acquisition processes are characterized by pre-acquisition routines that assess cultural similarity and consistency of vision (e. g., Larrson and Finkelstein, 1999) and post-acquisition routines that pay particular attention to the speed of integration (Graebner, 2000) and the strategic redeployment of assets across the two firms (Capron et al., 1998;

Graebner, 1999, 2000). Similarly, effective routines for coevolving in order to capture synergies among resources located in different parts of the organization typically have common features. These include routines to ensure that business heads develop social bonds with one another, and surprisingly that the business heads are rewarded for individual, not collective success (Christensen, 1997; Eisenhardt and Galunic, 2000). The existence of common features among effective dynamic capabilities does not, however, imply that any particular dynamic capability is exactly alike across firms. Take, for example, knowledge creation processes, a crucial dynamic capability especially within high-technology firms. A common feature across successful knowledge creation processes is explicit linkage between the focal firm and knowledge sources outside the firm. Commonalities across firms for effective specific dynamic capabilities have several implications. First, they imply equifinality. That is, managers of firms that develop an effective dynamic capability such as patching, knowledge creation, or alliance processes very probably begin the development of that capability from different starting points, and take unique paths. Yet, since they end up with capabilities that are similar in terms of key attributes, there are multiple paths (equifinality) to the same dynamic capabilities. Second, commonalities in key features of effective dynamic capabilities imply that these routines are more substitutable and fungible across different contexts than current theory suggests. In the case of substitutability, as our example of knowledge creation processes suggests, effective dynamic capabilities can differ in form and details as long as the important commonalities are present. In the case of fungibility, commonalities simply the efficacy of particular dynamic capabili-

ties across a range of industries. Third, commonalities imply that dynamic capabilities per se are not likely to be sources of sustained competitive advantage. The thinking is as follows. According to the logic of RBV, sustained competitive advantage occurs when capabilities are not only valuable and rare, but also inimitable, immobile, and nonsubstitutable. Dynamic capabilities are typically valuable. They may be rare or at least not possessed by all competitors equally, as is apparent in much of the empirical research. Sustainability, however, breaks down for the latter conditions.

Equifinality renders inimitability and immobility irrelevant to sustained advantage. That is, firms can gain the same capabilities from many paths, and independent of other firms. So, whether they can imitate other firms or move resources is not particularly relevant because managers of firms can discover them on their own. Dynamic capabilities are substitutable because they need to have key features in common to be effective, but they can actually be different in terms of many details. This suggests that dynamic capabilities per se can be a source of competitive, but not sustainable, advantage. Finally, commonalities suggest that the scale of 'idiosyncratic firm effects' in the empirical literature (Brush, Bromiley, and Hendrickx, 1999; McGahan and Porter, 1997; Roquebert, Phillips, and Westfall, 1996; Schmalensee, 1985; Wernerfelt and Montgomery, 1988) is probably overstated. Simply using dummy variables for firms leads to underspecified models that cannot capture key organizational attributes of dynamic capabilities as drivers of performance. Table 1 contrasts our view with previous ones.

Market Dynamism:

dynamism. In particular, dynamic capabilities vary in their reliance on existing knowledge. Moderately dynamic markets are ones in which change occurs frequently, but along roughly predictable and linear paths. They have relatively stable industry structures such that market boundaries are clear and the players (e. g., competitors, customers, complementers) are well known. In these markets, effective dynamic capabilities rely heavily on existing knowledge. Managers analyze situations in the context of their existing tacit knowledge and rules of thumb, and then plan and organize their activities in a relatively ordered fashion (Burns and Stalker, 1966). They can develop efficient processes that are predictable and relatively stable with linear steps, beginning with analysis and ending with implementation (Helfat, 1997). Similarly, Fredrickson (1984) examined strategic decision making in the paint industry, a slowly evolving industry. He found that more effective decision making processes were linear. These effective processes were characterized by a sequence of problem solving steps that began with comprehensive collection of data, followed by development of alternatives, extensive analysis of those alternatives, and choice. In contrast, when markets are very dynamic or what is termed 'high velocity' (e. g., Eisenhardt, 1989), change becomes nonlinear and less predictable. High-velocity markets are ones in which market boundaries are blurred, successful business models are unclear, and market players (i. e., buyers, suppliers, competitors, complementers) are ambiguous and shifting. The overall industry structure is unclear. Uncertainty cannot be modeled as probabilities because it is not possible to specify a priori the possible future

states. In these markets, dynamic capabilities necessarily rely much less on existing knowledge and much more on rapidly creating situation-specific new knowledge. Existing knowledge can even be a disadvantage if managers overgeneralize from past situations (Argote, 1999). Effective dynamic capabilities in high-velocity markets are simple, not complicated as they are in moderately dynamic markets. Simple routines keep managers focused on broadly important issues without locking them into specific behaviors or the use of past experience that may be inappropriate given the actions required in a particular situation. Often these routines consist of a few rules that specify boundary conditions on the actions of managers or indicate priorities, important in fast-moving markets where attention is in short supply. While dynamic capabilities are simple in high-velocity markets, they are not completely unstructured or 'organic' (e. g., Burns and Stalker, 1966; Lawrence and Lorsch, 1967). Indeed, if there were no structures, these processes would fly out of control and exhibit no coherence. Therefore, simple routines provide enough structure (i. e., semistructure) so that people can focus their attention amid a cacophony of information and possibilities, help provide sense making about the situation, and be confident enough to act in these highly uncertain situations where it is easy to become paralyzed by anxiety. In high-velocity markets, absence of detailed, formal routines is not indicative of extensive use of tacit knowledge or complex social routines that cannot be codified, although these may be present. Rather, dynamic capabilities strikingly involve the creation of new, situation-specific knowledge. This occurs by engaging in experiential actions to learn quickly and thereby compensating for limited, relevant existing knowledge

by rapidly creating new knowledge about the current situation. So, dynamic capabilities often use prototyping and early testing to gain new knowledge quickly. Such actions create rapid learning through small losses and immediate feedback (Argote, 1999; Sitkin, 1992). Dynamic capabilities in these markets proceed in an iterative fashion. As managers adjust to new information and changing conditions, they engage in more recycling through steps such as developing alternatives and implementation that would be linear in less dynamic markets. Dynamic capabilities also rely more on real-time information, cross-functional relationships and intensive communication among those involved in the process and with the external market. Real-time information alerts people early on to the need to adjust their actions since problems and opportunities are spotted more quickly than when individuals were more distant from information. Real-time information also builds intuition about the marketplace such that managers can more quickly understand the changing situation and adapt to it (Eisenhardt, 1989). Finally, dynamic capabilities in these markets are characterized by parallel consideration and often partial implementation (e. g., prototyping) of multiple options. Such options provide fallback positions, which are useful since situations can change rapidly. They also give managers a sense of confidence to act quickly. The emotional inability to cope with uncertainty is a major factor that slows down managers in high-velocity markets (Eisenhardt, 1989). Effects The effects of market dynamism on dynamic capabilities have several implications. One is that sustainability of the capabilities themselves varies with the dynamism of the market. In moderately dynamic markets, dynamic capabilities resemble the traditional conception of routines (Cyert

and March, 1963; Nelson and Winter, 1982; Zollo and Winter, 1999). That is, they are complicated, predictable, analytic processes that rely extensively on existing knowledge, linear execution and slow evolution over time. As managers continue to gain experience with these routines, they groove the processes more deeply such that they become easily sustained and even inertial. Codification of the routines through the technology or formal procedures enhances that sustainability (Argote, 1999). Therefore, the capabilities become robust. In contrast, in high-velocity markets, dynamic capabilities take on a different character. They are simple (not complicated), experiential (not analytic), and iterative (not linear) processes. They rely on the creation of situation-specific knowledge that is applied in the context of simple boundary and priority-setting rules. But since these routines are simple, there is little structure for managers to grasp and so they become easy to forget (Argote, 1999). This tendency to forget is exacerbated by the high turnover and rapid growth that often accompanies firms in high-velocity markets. In more technical terms, these improvisational processes are dissipative, meaning that they require constant energy to stay on track (Prigogine and Stengers, 1984). They are in the continuously unstable state of slipping into either too much or too little structure that is sometimes termed the 'edge of chaos' (Kauffman, 1995). What is challenging to manage then is the optimal amount of structure (Eisenhardt and Bhatia, 2000). Therefore, dynamic capabilities themselves become difficult to sustain in high-velocity markets. In moderately dynamic markets, competitive advantage is destroyed from outside the firm. In high-velocity markets, the threat to competitive advantage comes not only from outside

the firm, but also more insidiously from inside the firm through the potential collapse of dynamic capabilities.

Evolution

The evolution of dynamic capabilities is also affected by the pacing of experience. Experience that comes too fast can overwhelm managers, leading to an inability to transform experience into meaningful learning. Similarly, infrequent experience can lead to forgetting what was learned previously and so result in little knowledge accumulation as well (Argote, 1999). For example, in the study mentioned earlier, Hayward (1998) found that timing had an inverted 'U'-shaped relationship with acquisition performance. Too many acquisitions done too frequently impaired managers' ability to absorb the lessons of any particular acquisition. They needed time to consolidate their learning. Yet, when there were too few acquisitions spaced too far apart, managers did not have enough opportunities to hone their skill.

Discussion:

Our work suggests reframing the concept of dynamic capabilities. Dynamic capabilities are not tautological, vague, and endlessly recursive as some have suggested (e. g., Priem and Butler, 2000; Williamson, 1999). Rather, they consist of many well-known processes such as alliancing, product development, and strategic decision making that have been studied extensively in their own right, apart from RBV. Their value for competitive advantage lies in their ability to alter the resource base: create, integrate, recombine, and release resources. Dynamic capabilities also exhibit commonalities across firms that are associated with superior effectiveness.

So while the specifics of any given dynamic capability may be idiosyncratic to a firm (e. g., exact composition of a cross-functional product development team) and path dependent in its emergence, 'best practice' exists for particular dynamic capabilities across firms. These commonalities imply that dynamic capabilities are equifinal such that firms can develop these capabilities from many starting points and along different paths. They are also more homogeneous, fungible, and substitutable than is usually assumed. Overall, these observations suggest a modified conception of dynamic capabilities.

Theory and Literature Review:

Resources: resources which are sometime synonym for assets are defined as all tangible or intangible things that can be used in the business processes of a firm to produce and develop products and/or offer services, whereas capabilities are action patterns repeating in the taking advantage of assets.

Subsequently we describe the characteristics of resources which lead organizations to attain competitive advantage with these resources.

Resource Characteristics: the three attributes of resources that help an organization create or attain CA are value, rarity and appropriability. The three attributes of resources that limit an organization's ability to sustain CA are imitability, substitutability, and mobility. **Value:** A resource has value when it enables an organization to implement strategies to improve efficiency and effectiveness. **Rarity:** Rarity refers to the condition where the resource is not simultaneously available to a large number of firms.

Appropriability: Appropriability refers to a firm's capability to appropriate the

returns accrued by its competitive position in possessing valuable and rare resources. Resources, no matter how valuable and rare, are good if their benefits can be tapped and appropriated. Otherwise, a firm cannot be considered to have attained competitive advantage.

Inimitability:
Inimitability is an attribute of a resource that makes it almost impossible for other firms to duplicate it. Resources would become very difficult to duplicate when they are deeply integrated into a firm through its unique development path, such as brand loyalty and company culture. Such resources are also characterized by social complexity.

Non-substitutability:
Non-substitutability is an attribute of a resource which makes it difficult to replace with another resource that yields equivalent benefits. When an organization is in possession of a rare and inimitable resource, competitors may seek to match up by acquiring a substitute resource. In ensuring that the resource is also non-substitutable, the organization is in a competitively superior position that is not easily matched by competitors.

Immobility:
Immobility of a resource is the condition in which the resource cannot be obtained by acquisition through factor markets. Immobility or imperfectly mobile resources make it difficult for competitors to attain instant competitive advantage by attracting resources away from rivals, purchasing them like commodities or even mergers and acquisitions with companies possessing strategically important resources.

Capabilities: Capability is the ability to transform inputs to outputs of greater value i. e. the ability of the firms to perform an activity more effectively than competitors with similar resource endowments. A capability can be intrinsically valuable or it can be valuable by increasing the value of a resource.