Resource based view (rbv): advantages and disadvantages

This report reviews the empirical studies of the resource based view (RBV) and examines the benefits and limitations of RBV as the “ best” strategy route in the developing a firm’s strategy. By having a clear and focused strategic intent, it mobilises an organisation towards achieving the desire position. Firm would be able to achieve sustainable competitive advantage (SCA) by analysing its internal and external environment using the RBV and Porter’s industry analysis (IA) respectively,

The significant of RBV is through an understanding of the relationships between resources, capabilities, competitive advantage, and economic rent. The RBV identified characteristics of “ advantage-creating” resources such as value, rarity, imitability and Organisation (Clulow et al, 2007; Barney, 1991). In contrast, Porter’s IA focuses on lower cost and product differentiation in achieving sustainable competitive advantage.

Despite the conflicting issues, the RBV has examined issues and new directions that will help to clarify the value and boundaries by integrating with Porter’s industry analysis. Porter’s framework and the RBV of the firm essentially perceived the primary role of strategy in attaining a SCA (Hax A. C. and Wilde II D. L., 2003). Thus, both frameworks are complementary as they emphasised in different dimensions of strategy (Hax A. C. and Wilde II D. L., 2003).

(183 Words)

Introduction

The RBV is one of the contemporary strategic management concepts to develop a firm’s strategy. The objective of this report is to accept or reject the contention that RBV analysis has a strong relationship with firm's performance in attaining a SCA.

This report reviews the literature on competitive advantage and firm performance. It is divided into five main components. The first section summarizes the literature on competitive advantage from two viewpoints, the RBV and Porter's IA. The second section discusses on the strengths of the RBV in reviews with the literature on strategic intent, threshold resources, capabilities, competitive advantage, core competencies, SCA and VRIO. The third section illustrates Porter's IA in reviews with cost, differentiation, and market focus. The fourth section deliberates the criticisms of the RBV. The fifth section illustrates how researchers have overcome some of these boundaries. It reviews an integration of the RBV and Porter's IA in the proposed model of core competencies, competitive advantage and firm performance (Chabert J. M., 1998)

(165 Words)

The Resource Based View of the Firm

Thompson et Al (2010) point out that RBV[1]uses a company's VRIO[2]strengths and competitive capabilities to deliver value to customers in an approach that rivals find it difficult to imitate. The RBV emphasises on the internal capabilities of an organisation in formulating strategy to achieve SCA[3]in its markets and industries (Henry, 2008). It holds that firms can earn sustainable abnormal returns if and only they have superior resources and its protected by an isolating mechanism preventing their diffusion throughout the industry (Value Based Management. net, 2011).

The Resourced Based View Assumptions

The RBV assumed that resources are diversity and immobility (Barney, 1991; Mata et al, 1995). According to Mata et al. (1995), resource diversity concerns whether different firms possess bundles of different resources and capabilities; while resource immobility refers to a resource is difficult to obtain by competitors because the supply is inelastic or costly. These two assumptions can be used to determine whether an organisation is able to create a SCA by providing a framework to determine whether a process or technology provides a real advantage over the marketplace (Brown, 2007). Thus, the RBV tends to focus on the types of resources and the characteristics of these resources that make them strategically important.

The RBV as the “ best” strategy route in developing a firm’s strategy

Today managers are moving manufacturing offshore to lower costs of labour, streamlining product lines to capture global scale economies, instituting quality circles and JIT[4], and adopting Japanese human resource practices (Hamel and Prahalad 1989). It was believed that the application of concepts like ‘ strategic fit’ (between resources and opportunities), ‘ generic strategies’ (low cost, differentiation and market focus) and the ‘ strategy hierarchy’ (goals, strategies, and tactics) have often aided the process of CA[5](Hamel and Prahalad 1989; Andrews, 1971). Most companies have approached competitor analysis that concentrates on the existing resources like human, technical and financial of current competitors. Whereas, companies are only aware to the resources that able to increase the future margins and market share as their primary threat. There are few Japanese companies possessed RBV, manufacturing volume or technical competence of U. S. and European leaders. For instance, Canon's first halting steps in reprographics business looked very small compared with the $4 billion Xerox powerhouse (Hamel and Prahalad 1989).

Strategic Intent

In addition, strategic intent envisions a desired leadership position and establishes the criterion of adding value to the RBV of the organisation, for instance, Komatsu set out to encircle Caterpillar (Hamel and Prahalad, 1989). The concept emphasises on an active management process that involved focusing the organisation's attention on the principle of winning. For example, the Apollo program where landing a man on the moon ahead of the Soviets was as competitively focused as Komatsu's drive against Caterpillar. It also motivates people through shared value, enabled individual and team opinions, sustaining enthusiasms as environments change and using intent consistently to guide allocation of resources (Hamel and Prahalad, 1989).

Barney (1991) and Peteraf (1993) point out that a firm is said to enjoy superior performance comparative than its competitor when the firm can produce economically and higher customer satisfaction, thus empowered them to attain CA. Whereas, Porter (1985) defined CA as the ability to earn returns on investment consistently above the average for the industry by focusing on the company's external competitive environment and how they position themselves against that structure (Halawi L. A., Aronson J. E, and McCarthy R. V., 2005). In contrast, the RBV of strategy points not to industry structure but to the unique cluster of R&C[6]that each organisation possesses (Henry, 2008; Collis and Montgomery 1995; Stalk et al, 1992).

Firms Outperform and Maintain Competitive Advantage

The Benefits of RBV

RBV is best applied for the assessment of a firm's existing resource portfolio or when exploiting the firm's resources to move into new product markets (Sheehan and Foss, 2007; Barney 2001; Penrose 1959). There are two essential reasons for using the R&C as a substance to its strategy. It provides a direction for firm's strategy and they are the primary source of return for the firm. The RBV perceives the value derived from management skills, information capabilities, and administrative processes as scarce factors that able to generate economic rents (Sheehan and Foss, 2007).

Firms as bundle of Resources

Threshold resources are defined as the unique combination of assets and capabilities within a firm that enable firms to develop and implement strategies to meet customers' minimum requirements and to improve its overall performance (Scholes J. G., and Whittington, R., 2008). It can be classified as either tangible or intangible resources. Tangible resources refer to the physical assets that a firm possesses. In order to add value, these physical resources must be capable to respond to marketplace changes. Intangible resources comprise of human and organisational capitals. It may be embedded in cultures and practices that have developed over time within the organisation (Henry, 2008).

It involves knowledge based economy, the tacit knowledge and specialist skills of many employees which are difficult for competitors to imitate (Henry, 2008). Nonaka and Takeuchi (1995) classified knowledge as explicit and tacit. A communication that can be readily transferred is known as an explicit knowledge; hence, it requires protection like copyright. While, tacit knowledge is discovered through its application and acquired through practices such as beliefs and perspectives and cannot be codified (Henry, 2008).

RBV and Organisational learning

The RBV stresses the significance of developing and enhancing those resources that are distinctive as distinctive capabilities (Olavarrieta and Ellinger, 1997). Ten3 Business e-Coach (2001) defined capabilities as the capacity for a set of resources to interactively perform a business process. Capability is a source to SCA as it is based on organisational routines and processes that are socially complex, knowledge-based and difficult to imitate.

A firm is able to possess dynamic and operational capabilities, where dynamic capabilities are defined as those processes that allowed the firm to change its resources based on techniques to meet the differences in strategic and competitive challenges (Zubac et al, 2010; Helfat et al, 2007). The perception of a dynamic capability was developed to expound why some firms have been able to outperform their competitors over long periods of time and despite significant changes in the marketplace (Teece et al, 1997). It is specific and identifiable processes involved conceptualisation, product development and strategic decision making (Eisenhardt and Martin, 2000, p. 1105).

Conversely, an operational capability is the firm's capacity to combine, assemble and deploy the firm's assets using pre-determined activities, routines, processes and the skills of its employees to make goods and services that are a source of potential profits to the firm available to its customers (Spanos and Lioukas, 2001). However when a firm is adopting a differentiation strategy, they would focus on new product development, whereas a firm which implementing low cost strategy would focus on improving manufacturing process efficiency (Henry, 2008). Capabilities are not built in short period; they are dependent on employees, knowledge based, understanding of the marketplace and customers' requirements and operations (Olavarrieta and Ellinger, 1997).

The Competitive Advantage of RBV

Competitive advantages and disadvantages in resources are equivalent to strengths and weaknesses respectively, which stimulate cost and differentiation advantages or disadvantages in competitive product markets (Valentin K. E., 2001). When an organisation implements a value creating strategy where it is not implement by the rivals then it is said to have CA (Halawi L. A., Aronson J. E, and McCarthy R. V., 2005; Barney, 1991). CA can be created in various methods through size, location and accessibility to resources (Halawi L. A., Aronson J. E, and McCarthy R. V., 2005; Ghemawat, 1986). The CA gained by these R&C is then reflected in superior performance of the firm in financial terms such as higher profits, increased sales or market share (Clulow et al, 2007; Hunt and Morgan, 1995; Collis and Montgomery, 1995; Fahy, 2002; Wilcox-King and Zeithaml, 2001).

The Competencies of an Organisations

Henry (2008) evaluated competency as the internal capabilities that firms require in order to be able to compete in the marketplace. In addition, Zubac et al (2010) defined CC[7]as the collective learning of individual members within the firm and their ability to work across organisational frontiers. Prahalad and Hamel (1990, p. 82) stated that:

The skills that together constitute core competence must coalesce around individuals whose efforts are not so narrowly focused that they cannot recognise the opportunities for blending their functional expertise with those of others in new and interesting ways.

Thus, a CC or strategic capability can be thought as a collection of features that a firm possesses which enables them to achieve CA. Honda and BMW are examples of the organisations that have achieved CC in a way they configure their value chain respectively (Henry, 2008).

RBV and Sources of Sustainable Competitive Advantage (SCA)

Barney (1991) suggested that there can be heterogeneity or firm-level differences among firms that enabled them to attain SCA. Ten3 Business e-Coach (2001) describes SCA as the continued benefit when an organisation is implementing a value-creating strategy that is not being implemented by potential competitors and incapable to imitate the benefits of this strategy. Therefore, the RBV emphasises on strategic choice, structuring the management of the firm with the important task of identifying, developing and deploying R&C to maximise returns (Value Based Management. net, 2011).

Bharadwaj et al (1993) propose a framework of SCA for a firm is derived from the R&C of the firm. The extent of the service firms' SCA is essentially determined by the degree of imitability inherent in the firm's resources.

Kerin et al (1992) presented an integrative framework of the literature on first mover advantage, suggesting that the realisation of SCA, through market pioneering, is contingent on the resources that a firm possesses (Olavarrieta and Ellinger, 1997).

Strategic resources and Superior performances

As a source of CA, R&C must have four attributes which is VRIO in order to outpace others. A resource must be valuable as it empowers the firm to perceive or implement strategies that enhance its efficiency and effectiveness through lower costs and incline of revenue (Ecofine, 2010). Substitutability states that there must be no strategically equivalent valuable resources that can be exploited to implement the same strategies (12manage, 2008). For instance, Wal-Mart sells most of the same merchandise as its major competitors, but the effectiveness and innovation of its logistics system ensures that it is the market leader in the industry. Wal-Mart's valuable and imitability point-of-purchase inventory control systems and cross-docking distribution plants have resulted in competitive advantage relative to its major competitors (Olavarrieta and Ellinger, 1997; Barney, 1995).

Porter's Framework

Porter's Industry Analysis

Porter (2008) illustrates CA as an understanding of industry structure that guides managers toward productive possibilities for strategic action that includes positioning the company to be better cope with the current competitive forces, anticipating and exploiting shifts in the forces, and shaping the balance of forces to create a new industry structure that is more favourable to the company. There are three sources that is irreproducible, for instance, market structure that limits entry, a company's history which by definition will require time to imitate and tacitness in relationships refers to the routines and behaviours which cannot be imitate since the organisations themselves are unsure how they work (Henry, A., 2008). Porter's mentioned that there are only two generic studies to compete either through low cost or product differentiation that lead to superior performance (Hax A. C. and Wilde II D. L., 2003). To assist managers in understanding, improving, and implementing a low cost or differentiation strategy, Porter (1985) developed the value chain framework; it is a generic activity that is used to decompose the firm into the individual activities it undertakes to create value for the customer (Sheehan and Foss, 2007).

Economies of Scale

Cost leadership is achieved through the aggressive pursuit of economies of scale, product and process simplification, and significant market share that empower companies to exploit experience and learning effects (Hax A. C. and Wilde II D. L., 2003). Dell being one of the organisation are protected by scale economies in their direct-sales method, efficient lean-manufacturing approach, expertise in logistics and supply-chain management. Hence, these capabilities provide it with CA and which its competitive incapable to imitate (Henry, 2008).

Differentiation and Core Competencies

It requires firm to differentiate for creating a product that customer perceives as highly valuable and distinctive (Hax A. C. and Wilde II D. L., 2003). The first-mover advantage refers to firms which benefit from the learning and experience they acquire as a result of being first in the marketplace like Toyota has achieved CC in the production of petrol-and-electric hybrid cars (Henry, 2008). Hence, a CC should provide access to a diversity markets, make significant contribution to perceived customer benefits of the end products and difficult to imitate. Honda is one of the organisations that focuses on the technical excellence of 4-cycle engines, have facilitated it to leverage its CC to compete in markets from motorcycles to automobiles to a broad range of gasoline-engine products (Grant, M. R., 2001).

Market focus

Strategy can be viewed as building defences against the competitive forces or discovering the weakest forces in the industry. For instance, Paccar, a firm with heavy-truck market, has chosen to focus on owner-operators group of customers. They have customised the value chain to work immensely with the forces in the segments. Thus, Paccar has earned a long-run return on equity (Porter, 2008).

Criticisms

RBV Implications

The RBV of the firm is a contemporary theory that provides insights on both strategic and organizational issues. An often-recurring critique on the RBV is that its core logic contains circular reasoning in the specification of the relationship between rents and resources (Truijens, 2003). It resulted based on the assumptions of firm heterogeneity and economists’ preference (Truijens, 2003). Rents are frequently used as firm’s critical resources which acknowledged by comparing successful firms with unsuccessful firms (Truijens, 2003; Mosakowski et al., 1997, p. 2).

The RBV also emphasises on the role of human capital in the creation of CA, which at the same time caused issues for accountants in terms of total business and intangible asset valuation (Toms, 2010). Accountants equally are concerned with controls which prevent misappropriation of resources that ultimately are shareholders' property. Thus, a theory of value also needs to be accountability (Toms, 2010).

Conclusion

Porterian thoughts on value chain activity actually ways in which to configure and coordinate internal R&C in various ways to achieve value at every stage until it results in SCA, and ultimately, achieving strategic intent, i. e. a desired leadership position. Porter's value chain model was a contribution that helps complement his views on strategic positioning and CA. His views on analysing the industry five forces and selecting one of the generic strategies ultimately require the firm to look into its value chain activities. If, for example, the goal is to achieve cost leadership, then every activity, resource and capability in the value chain will be configured, coordinated, combined and utilized in such a way as to bring down costs and achieve greater productivity and higher profit. The strategic intent may be to attain no. 1 position. But cost leadership as a generic choice becomes the driver that guides all R&C decisions and activities in the value chain.

Activity-based drivers and RBV has many similarities, both influence a firm's cost and differentiation position, and both need managerial involvement in a way that drivers must be made controllable, while resources must be organised (Sheehan and Foss, 2007). Although these frameworks have often been presented as conflicting views; they can contribute greatly to the development of a strong business strategy.

By integrating these frameworks, it enables activity-based view solves implementation issues that are unresolved when using the RBV (Sheehan and Foss, 2007; Barney and Arikan, 2001). It enhances many of the individual weaknesses of the two views. The activity-based view is weak in its assumptions about factor markets, which would be addressed by the RBV (Sheehan and Foss, 2007; Teng and Cummings, 2002). Thus, Porter's IA[8]remains crucial and the choice should not be seen as one of either but rather one of complementarity.