

# Strategic resources and firm performance management essay



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In the era of the changing turbulent environment, competitiveness is crucial for superior performance in the global business context. The critique aims to provide a critical analysis on the relationship between strategic resources, firm's performance and a sustainable competitive advantage. Hence, the resource-based view (RBV) analysis is explored to prove the positive approach to the notion that RBV has a strong link with firm's performance especially in achieving a sustainable competitive advantage (SCA). The critique examines how and under which conditions resources can attain SCA. The merits and demerits of the RBV as the 'best' strategy process in the advancement of a firm's strategy are discussed to strengthen the acceptance of the contention that the RBV has a strong bond with the firm's performance. Moreover, the issues as to how and why do some firms outperform and maintain their competitive advantage are reviewed to determine how and to what extent they influence firm competitiveness. In order to accomplish the primary aim of the critique, the subject of the strengths and weaknesses of the RBV approach in attaining SCA and the contribution to firm-level value creation are examined. Prior to presenting the critique, the RBV analysis and Porter's Industry analysis are reviewed subsequently through the application of real life settings with comparisons of implied strengths and possible limitations.

## **Introduction**

The purpose of the critique which is based on the article 'Strategic resources and firm performance' (Anderson, 2011), is to accept or reject the contention that resource-based view analysis (RBV) has a strong relationship with firm's performance especially in achieving a sustainable competitive advantage

(SCA). Adopting the notion of the resource based view (RBV) of the firm's strategy; this critique seeks to prove the positive approach of RBV by critically analysing the relationship between the firms' resources and performance.

The RBV analysis has been defined by Johnson et al. (2008) as ' the competitive advantage and superior performance of an organization explained by the distinctiveness of its capabilities.' RBV emphasizes on internal capabilities of the organisation in formulating strategy to achieve a sustainable competitive advantage (Penrose, 1959; Rumelt, 1991; Barney, 1991; Grant, 1991; Peteraf, 1993). Strategic resources are evolved through organisational learning and are heterogeneously distributed among firms. Resource-based analysis which serves as an alternative to the market-based analysis can best rationalise firm performance. Studies show that the relationship between strategic resources and firm's performance is complex (Coff, 1999; Ray et al, 2004, Sheehan and Foss, 2007) as all firms are dependent on the possession of resources which is valuable, rare, imperfectly mobile, and non-substitutable (Barney, 1991) to achieve high performance. This can be categorised as the VRIN criterion to specify resources further. However, based on the FMMAD-criteria and the VRIN criteria, the combination of resources for RBV enables firms to enhance or maintain their competitive advantage over competitors.

## **Merits and Demerits of Resource Based View (RBV)**

Scholars argue that RBV is the " best" strategy route in the development of a firm's strategy, hence, acquiring its relative merits. Collis and Montgomery (1995) assert that the RBV approach identifies characteristics which can <https://assignbuster.com/strategic-resources-and-firm-performance-management-essay/>

create competitive advantage for the firm such as value, rareness and competitive superiority. However, Anderson (2011) suggests an alternative to Barney's view. The FMMAD-criteria which consists of fit, management capability, marketing capability, firm appropriation of rent and non-competitive disadvantages should be implemented and combined to positively utilise resources and achieve superior performance in a firm thus, resulting in becoming less tautological. Barney's (1991) argument is unable to fulfil all dimensions of the relationship between firm's strategic resources and performance. As such, the markets dominance comprising of technology behaviour, brand recognition or cost leadership is believed to be able to influence industries to establish a superior competitive position (McNeilly, 1996). For instance, Wal-Mart has succeeded with their Retail Link and the offer of low cost (Parnell, 2008) was based on cost leadership and aligned SCA with productive strategy (Johnson, Scholes and Whittington, 2010). As such, Wal-Mart can build their effective and efficient distribution system through its information sharing system to achieve SCA. Additionally, the RBV allows firms to identify which threshold resources to develop enabling them to complement the consumers' needs and preferences with the firm's valuable and strategic resources. The RBV approach enhances the combination and utilisation of strategic resources to differentiate firms in the market (heterogeneous) (Chulow and Gerstman, 2007). Moreover, the RBV enables firms' to function effectively, efficiently and less costly than competitors. This perspective is a significant divergence from the alternative market-based view analysis. Based on the heterogeneous view of RBV, several scholars argue that a firm should focus more on how to structure processes and resources to create dynamic capability compared to the

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resources possessed (Eisenhardt and Martin, 2000; Newbert, 2007; Teece et al., 1997). As such, Toyota's production system demonstrates JIT's inventory system as an inventory-based dynamic capability through the inclusion of capacities and capabilities of key suppliers (Schonberger, 1987). This allows them to achieve a competitive advantage over their competitors.

The demerits or criticisms of RBV as the 'best' strategic process can be reviewed. Priem and Butler (2001) assert that the RBV analysis assumes that the product market is stable and ignores the real value of the resources. As mentioned, RBV is considered to be tautological. Based on the Porter's industry analysis, Porter (1991, 1996) argues that the RBV does not approach the question of explicating the process by which merit was created, and that activities should be a more applicable focus than resources. Also, Hoopes, Madsen and Walker (2003) criticised RBV for not being able to provide tangible translations for operating firms. Furthermore, the RBV approach appears to be limited with narrow implications as the strategic role of management are deemed to be a process rather than from the operational functions of the firm's resources (Clulow, Barry and Gerstman, 2007). Firms tend to acquire resources that are time-consuming with uncertainty for competitors to imitate or duplicate through complex interactions between resources. However, dynamic capabilities serve as an extension of the RBV analysis to incorporate a better understanding of how merits are acquired and maintained over time. Also, the RBV's ambiguity and duration enhances the development that increases the value of resources and potential sustainability of competitive advantage.

## **Maintaining a Competitive Advantage**

The issues as to why do some firms outperform and maintain their competitive advantage arises. Firms can achieve sustainable competitive advantage (SCA) and surpass competitors through the RBV analysis which is to develop their resources internally. According to Pertusa-Ortega et al (2010), resources are protected by patents, trademarks and property rights while others are protected by hidden factors that make imitation complex. Moreover, firms are said to be able to identify which resources to structure via the VRIO criteria so that they may sustain competitive advantage (Barney, 1986). As such, Toyota, the largest car manufacturer, is known for their development of internal resources and accomplishment in improving quality, efficiency and reducing inventory simultaneously. Toyota has their own operating system and capabilities such as the 'kanban' inventory system which aids them to differentiate in designing, quality and customer service to sustain its competitive advantage (Sugimori, Kuunokim, Cho and Uchikawa, 1977).

## **Strengths and Weaknesses of RBV Analysis in achieving SCA and Firm-level Value Creation**

Barney (1991) affirmed that a firm is deemed to achieve sustainable competitive advantages over competitors through the implementation of strategies which exploit internal strengths in response to environmental opportunities. Simultaneously, internal weaknesses can be avoided and external threats are neutralised. Basically, the RBV analysis links to the contribution to firm-level value creation through the exploration of competencies and achieving required standards of international competition.

The RBV strengthens our understanding of the unique resources that create value (Barney, 1991). For example, Walgreens was able to provide value through competencies to offer desired value by its target customer group. Ultimately, Walgreens continuous value creation through the focus on the strategic capabilities is the source of the firm's potential earnings of profitable returns (Hoskisson, Hitt and Ireland, 2004). The RBV allows a firm to identify current abilities to the extent of which resources is a dynamic capability to create more value and generate high performance (Helfat et al, 2007). The high value creation enables firms to appropriate more rent by retailing its products and services efficiently. Besides this, Honda appears to be another firm following the RBV approach. Honda achieved SCA through their operational Just-In-Time and ERP system. They developed strategy around the firm's strength in dynamic gasoline-based engines. Also, Honda's production and manufacturing competes in differentiated product markets, but leverages a common resource with the ability to appropriate more rent (Robert M. Grant, 2005).

However, there are some weaknesses to the RBV approach in attaining competitive advantage. The RBV holds that, strategic resources must provide economic value to attain competitive advantage. For example, as the automobile industry undergoes changes in the era of turbulent environment, the advancement in design features, customer segmentation and niche markets such as customers with preference for hybrid vehicles progresses further (Power Report, 2003). Moreover, Toyota participates in long term intangible resources such as branding to appropriate rent. This allows Toyota to differentiate themselves from their rivals (Ragassa and

Ahmadian, 2007). Furthermore, Zubac et al. 2009 states that it is important for firms to comprehend the way resources become valuable once managers understand the concept of their customer value. The RBV does not have the definition of customer value that can be processed within the firm. However, it is said that in advancement of value creation, overemphasizing customer value prevent firms from targeting customer groups. For instance, HP was dominant in the software market which made other firms consider HP's next step before making decisions to move forward. However, IBM outperformed HP because HP ignored future customer potential and their opponent's strength. Instead, HP unintentionally helped IBM to transform and become more alert with the threat posed, thus, making IBM place more priority on the threat (McNeilly, 1996). Hence, IBM appears to have leveraged and diversified their intellectual capital in recent years.

### **Resource Based View vs. Porter's Industry Analysis**

Although there have been advancements in Porter's Industry analysis which revolves around five competitive forces and the generic strategies of cost leadership, product differentiation and focus, the RBV approach appears to be the 'best' strategy route for firms to attain a sustainable competitive advantage. Porter's Industry analysis describes external environmental conditions which assist to improve strategic positioning and provide rational insights to support and stabilise decisions to enter or exit an industry. Firms within an industry have identical strategic resources which are highly mobile, hence, homogeneous (Porter, 1998). However, according to Miller (1992), the specialisation in detailed strategy may result in the restriction of the firm's mission as it may create gaps and offer differentiated products while



ignoring customers' vital needs. Also, excessive specialisation in cost leadership could lead to outdated products which customers may choose to dislike.

In contrast, the RBV approach allows a firm to identify its own strengths rather than emphasising on the firm's external environment. The concepts within competitive heterogeneity have a positive impact on the limitations regarding RBV. For example, mobile provider firms namely, Nokia and Samsung strive to compete with the Apple Inc's dominant iPhone. Attempts to imitate the iPhone have created a niche market to outperform the dominant firm. Therefore, it can be generally accepted that Porter's Industry analysis should not be used on its own or rejected completely. Instead, the external environmental analysis should be used to complement the RBV analysis (Wright, Kroll, Pray and Lado, 1995).

## **Conclusion**

In conclusion, it can be generally accepted that the RBV approach has a strong relationship with firm's performance especially in attaining a sustainable competitive advantage (SCA). Additionally, Porter's Industrial analysis can be used to complement the RBV analysis (Wright, Kroll, Pray and Lado, 1995). The RBV analysis enables firms to utilise their resources, thus, adding value to the firm. In terms of recommendations, the definition of customer value should be a requirement to the RBV analysis as this may generate higher value and performance. Besides this, the RBV analysis allows a firm to identify strategic resources through the VRIN and FMMAD-criteria (Barney, 1991). However, some criticisms of the RBV are approached in relation to the difficulties experienced by firms to establish SCA. Firms

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cannot afford to focus solely on the expense of their internal resources and exclude opportunities to attain SCA. The RBV implicitly assumes that firms utilise their resources to maximise the appropriation of rent where competitiveness is concerned. Therefore, the resource-based view analysis remains important as firms cannot neglect the internal operations of a firm.