Challenges of the resource based view business essay

Resource-based view (RBV) is a modern and promising concept that provides insights on both strategic and organisational matter. It is a manner of viewing the organisation and in turn of approaching strategy (Powell, 2007). Sustainable competitive advantages happen when a firm is executing a value-creating strategy that is not being executed by rivals and when these rivals are unable to replicate the benefits of this strategy (Henry, 2008). The achievement of sustainable competitive advantage can be anticipated to lead to higher performance measured in conventional terms such as market-share and profitability (Sheehan and Foss, 2007). Thus, the main purpose of this critique is to determine whether resource based view analysis has a strong relationship with firm's performance in attaining a sustainable competitive advantage. It is also to discuss the merits and demerits of RBV as the best strategy route in the development of a firm's strategy and strengths and weaknesses of the RBV analysis in achieving competitive advantage and the contribution to firm-level value creation.

In the dynamic environment faced by several firms, market positioning can become obsolete quickly because of new innovations, process enhancement and competitive environments. To compete successfully in these markets, it is said that organisations need to constantly craft new sources of competitive advantage (Powell and Thomas, n. d.) In order to achieve sustainable competitive advantage and good performance, it is said that resource based view theory is essential (Klein, 2011). RBV underlines the internal capabilities of an organisation in creating strategy to attain sustainable competitive advantage in its market and industries (Henry, 2008).

RBV claims that organisations achieve and sustain competitive advantages by deploying precious resources and capabilities that are inelastic in supply (Ray, Barney and Muhanna, 2004).

Competitive advantage happens only in a situation of resource heterogeneity, diverse resources across organisations and resource immobility, the incapability of competing organisations to gain resources from other firms (Madhani, P. M., 2009). Given that competitive advantage occurs in a situation of resource heterogeneity, organisations should have some basic threshold resources in order to compete in the market (Andersen, J., 2011). A division should to be made between capabilities (resources or competences) that are at a threshold level and those that might assist the firms to achieve competitive advantage and higher performance. Threshold resources are significant but it does not of themselves generate competitive advantage or the source of higher performance. These are dependent on a firm having distinctive capabilities that rivals will find it complicated to replicate (Johnson, Scholes and Whittington, 2008). It is held that RBV can be used to discover if the organisation possesses any strategic resources which can be able to be utilised to base the firm’s strategy on. However, according to RBV, not each and every resources of an organisation will be strategic resources. If managers can recognise these resources, it permits them to cherish these resources. Besides that, managers in underperforming organisation may exploit the RBV to discover resources that are deficient and inspect if it can be alternate or replicate these resources (Sheehan and Foss, 2007). Strategic assets offer the organisation with a source of stable stream of rents so that it achieves a sustained competitive advantage over its competitors. Barney proposes that such advantages depend “ in a critical way, on the resource endowments controlled by the firm”. Hence, it is the stock of strategic assets that are significant in determining the organisation profitability level. Moreover, managers should highlight on the utilisation of already controlled resources to attain economic rents for the organisation (Kochhar, 1997).

An organisation’s resources will allow a firm to be high performing when they are valuable, rare, inimitable and non-substitutable. This relates to circumstances where the market atmosphere is fairly static or predictable. Thus, RBV suits the best in a static or predictable context. On the other hand, in a dynamic atmosphere, resources are more homogenous, fungible, equifinal and substitutable than is regularly understood. As the market environment becomes quickly moving, the firm will quickly adopt resources that are similar as their rivals. Under these circumstances, performance difference between firm are more attributable to the dynamic capabilities such as the firm’s resource selection methods and the quality of the deployment judgment of the organisation’s managers, rather than merely due to possessing resources that are valuable or hard to obtain (Zubac, Hubbard and Johnson, 2010).

2. 2 Comparison of RBV and Porter’s analysis

RBV is constantly seen as a substitute to Porter’s five forces framework. Porter’s framework generally emphasises on the external impact on strategy development and it assist organisation to examine those forces in an industry, which give rise to opportunities and threats.

The main argument is that the theory deals with the profitability of the industries instead of individual firms. Hence, it does not assist particular firms to recognise and leverage unique and therefore sustainable competitive advantages. In contrast, RBV approach suggests that organisations should place themselves strategically based on their unique, valuable and inimitable resources and capabilities instead of the products and services derived from those capabilities. Thus, resources and capabilities can be considered as platform from which the organisation develops various products for diverse markets. While products and markets may come and go, resources and capabilities are more lasting. So, leveraging resources and capabilities across many markets and products becomes the strategic driver instead of targeting specific products for specific markets as in Porter's model (Trainmor-knowmore, 2008)

2. 3 Merits and demerits of RBV as the best strategy development of a firm's strategy

According to Connor (2002), RBV is an important, crucial and an inside-out management theory that is functional in developing victorious strategy. One of the merits of RBV as the best strategy route in development of an organisation's strategy is RBV strategy recognises and highlights on the importance of resources in achieving sustainable competitive advantage. It focuses on the capability and efficiency of internal resources. Tangible and intangible resources are integrated with RBV. The RBV of strategy also crafts a framework for the management to think about their strength and weakness, understand marketing problems that aids to improve organisation's performance (Falkenreck, 2010). RBV is also useful in understanding the nature of internal resources and their optimal exploitation (Connor, 2002).

Although there are merits of RBV, it is not without demerits. The general demerit of RBV is RBV does not address the vital issues of how resources can created and change over time. Some researchers also have argued that RBV of strategy lacks in detail hence it is quite difficult to implement in an organisation (Henry, 2008).

2. 4 Why do some firms outperform and maintain their competitive advantages over others?

Advancement in the field of strategy is basically dependent on how good the field responds to the question ' Why do a number of firms outperform others?" and other corollary questions like, " How do organisations get in a position where they can outperform others?" and " How can they uphold this position?" The RBV is a brilliant means for describing why some firms outperform others (Sheehan and Foss, 2007). It suggests critical and primary insights into why organisations with valuable, rare, inimitable, and well structured resources may benefit from superior performance (Barney, 1995).

Distinctive competencies are one of the traits of an organisation that permit it to pursue a strategy more efficiently and effectively than other firms (Barney and Arikan, 2001). However, a firm's competence is merely distinctive when they emanate from traits which others do not have. For it to be sustainable, the traits must continue over time. One of the distinctive competencies acknowledged by those trying to be aware of persistent performance disparity between firms is general management capability.

General managers can have a major impact on the strategies a firm choose to pursue and on the capability of a firm to execute the strategies it created. It is argued that naturally organisations that comprise of " high quality" general managers will generally outperform organisations that comprise of " low quality" general managers. In this context, choosing high quality general managers is the most essential strategic option that can be made by an organisation and training high quality general managers is the most significant task of business schools (Barney and Arikan, 2001). Organisations with distinctive competencies have power that may facilitate them to get hold of superior performance and leaders as creative thinker and organisation builders rather than just as decision makers and administrators possibly will be an important source of performance advantage (Selznick, 1957). A firm's ability to innovate fruitfully is also a form of distinctive competencies which is sustainable and appropriable. For example, a firm can produce innovative products such as Apple with i-tunes and i-pod. In a survey to discover 50 most innovative companies around the world, it is revealed that Apple got the third place. Apple's unrivalled innovation in product function and design is verifying that it is hard for competitors to chase. Both these competencies allows firm to outperform others (Henry, 2008).

Besides that, core competence is also a trait for organisation that permits it to pursue a strategy more efficiently and effectively than other firms (Barney and Arikan, 2001). Core competencies is known as the collective learning of the organisation, particularly how to synchronize various production ability and integrate numerous streams of technology (Zubac, Hubbard and

Johnson, 2010). A core competence should offer broad access to variety of markets, create important contribution to the perceived customer benefits of the end products and should be hard for rivals to imitate (Henry, A., 2008). Organisation that has core competencies will regularly find it less complex to replicate competitive advantages even in the face of a main market or technological-based change. The exemption is when a core competency becomes core rigidity. Thus, if an organisation wants to achieve high performance, its managers need to consider both the activities that the organisation desires to engage into and the kinds of resources the organisation needs to exploit to permit those activities to take place as well as the assets and capabilities that an organisation's managers have to manage (Barney and Arikan, 2001). Toyota is able to outperform other competitors because of its core competence. Its core competence develops from its capability to combine core competencies across the whole organisation. Toyota is delighted with its victory of its Prius, an electric-and-petrol hybrid car that has sold well in America. Its rivals such as General Motors, BMW and Ford are trying hard to produce their own hybrid car. However, Toyota believes that with practice they can master the fuel-saving technologies faster than its competitors. While the competitors try to integrate hybrid engines in their cars, Toyota is trying to cut the price of the engines in half to make it harder for the competitor (Henry, 2008).

2. 5 Strengths and weaknesses of RBV analysis in achieving competitive advantage and the contribution to firm-level value creation

For organisation's resources to achieve sustained competitive advantage, it is argued that the resources need to be valuable, rare, inimitable, and non-substitutable (Powell and Thomas, n. d.) Thus, if an organisation's resources possess these characteristics, it allows the organisation to enter into new market and add value to the customers such as Toyota's hybrid car and Apple's I-pod (Henry, 2008). This is one of the strengths of RBV analysis in achieving competitive advantage and the contribution to firm-level value creation. Furthermore, firms focusing on RBV have potential that allow them to produce at lower cost which will lead them to the benefit of focusing on cost-leadership strategy or create a superior product or service at standard cost in relation to other firms with lower capabilities which leads them to focus on differentiation strategy (Johnson, Scholes and Whittington, 2008).

The main critique of the RBV is that though it provides a theory of sustainability, it is not a theory of value creation, which, if true, they rightfully argue limits its usefulness as a strategic tool (Sheehan and Foss, 2007). The RBV is mainly recognition of the uniqueness that resources must have to yield rents in equilibrium. This somewhat leave out concern with process of crafting strategic resources through innovation and similar creative act or restoring such resources (Matthews, 2006).

How should resources be pooled, in which proportions, quantity, sequence, etc. to yield value? These are vital implementation matters that are presently outside the purview of the RBV (Sheehan and Foss, 2007).

3. 0 Conclusion

In conclusion, the existence of strategic resources is adequate to establish the potential for competitive advantage. Therefore, there is a strong relationship between resources and performance. The important elements of RBV of an organisation are the organisation's main resources and the responsibility of management in changing these resources into situation of sustainable competitive advantage leads to superior performance in the marketplace (Sheehan and Foss, 2007). Some research revealed that the RBV can be used at the level of the strategic group and the industry as well as the organisation (Fahy, 2000). RBV definitely has vast potential for assisting managers and organisations to improve their practices and performance (Klein, 2011). The flexibility of this framework makes it fairly adaptable to specific organisation or industry's situations (Stephane, 2007). Industries such as financial services are example of where sustainable advantages are hard to achieve and competitive moves are replicated quickly (Fahy and Smithee, 1999). As organisation's industry environments have become unstable, thus the internal resources and capabilities have been suggested as a securer base for crafting strategy instead of external market focus (Grant, 2005).