

Resource based view



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In the face of global competition, the struggle for relevance and viability has forced organisations to adopt an increasingly strategic approach to management practices across all facets of the business. The territory of human resources is no exception. In the realm of HRM there is an ongoing search for “ the Holy Grail of establishing a causal link between HRM and performance” (Legge 2001: 23). The Resource-Based View of the firm (hereon: the RBV) (Barney, 1986, 1991; Penrose, 1959; Wernerfelt, 1984) is one relevant theory in this popular debate. This essay critically analyses the RBV in detail. It discusses the theory’s fundamental principles and criteria, then its merits and demerits in relation to its application to organisational performance, its relative status as an applicable theory per se, as well as its possible influence on competitive advantage. Additionally, this essay will highlight a contemporary perspective on ways to ameliorating the theory in light of its many criticisms, as well as offering ideas for targeted future research on organisational performance. Finally, this essay suggests that when examining the link between HRM and organisational performance, the additional element of intra-organisational politics needs to be taken into account.

The RBV’s basic principle is that an organisation’s capacity for competitive advantage is restricted to its management of its own bundle of resources (Wernerfelt, 1984: 172; Rumelt, 1984: 557-558). The RBV describes the resources’ characteristics in four head categories, discussed below – Value, Rarity, Inimitability and Non-substitutability (or VRIN). First, ‘ Value’ describes a resource’s ability to enable a firm to employ a value-creating strategy, by either outperforming its competitors or reducing its own

shortcomings (Barney, 1991: p99; Amit & Schoemaker, 1993: 36). Second, 'Rarity' assumes that for a resource to be of value, it must be rare or unique in terms of availability as a resource to other firms (Barney, 1986a: 1232-1233; Dierickx and Cool, 1989: 1504; Barney, 1991: 100). Third, the RBV suggests that an organisation's human capital management practices can contribute significantly to sustaining competitive advantage by creating specific knowledge, skills and culture within the firm that are difficult to imitate (Afiouni, 2007; Luftman & Kempaiah, 2007; Mata et al., 1995). Therefore, 'inimitability' describes the value that comes from a resource if competitors are not able to duplicate this strategic asset perfectly (Peteraf, 1993: 183; Barney, 1986b: 658). This could be due to what Rumelt (1984: 567) calls 'isolating mechanisms', an explanation as to why firms might not be capable of imitating a resource to the degree that they can contend with the firm who has the valuable resource (Peteraf, 1993; Mahoney & Pandian, 1992). In turn, this isolating mechanism is affected by causal ambiguity, a term which describes what is said to occur if the source from which an organisation's competitive advantage stems is unknown (Peteraf, 1993; Lippman & Rumelt, 1982). As an example, if the resource in question is knowledge-based or socially complex, causal ambiguity is more likely to occur, as these types of resources are more likely to be unique to the firm in which they reside (Peteraf, 1993; Mahoney & Pandian, 1992). Finally, 'Non-substitutability' – even if a resource is rare, potentially value-creating and inimitable, an equally important aspect is the lack of substitutability for the resource that could be taken up by another organisation (Dierickx & Cool, 1989: 1509; Barney, 1991: 111).

As such, when considering the RBV, this is the necessary groundwork, as summarised by Crook et al. (2008): identification of organisation's key resources; evaluation of such resources according to the four head criteria; and finally, the nurturing and protection of these resources, because doing so can improve organisational performance. Important to note is that the characteristics mentioned are individually necessary, but not individually sufficient conditions for a sustained competitive advantage (Dierickx and Cool, 1989, p1506; Priem & Butler, 2001: 25). In other words, within the framework of the RBV, the chain is as strong as its weakest link and therefore requires the resource to display each of the four characteristics to be a possible source of a sustainable competitive advantage (Barney, 1991: 105-107). Indeed, to transform a temporary competitive advantage into a sustained competitive advantage requires that these resources are heterogeneous in nature and not perfectly mobile (Lopez, 2005: 662, Helfat & Peteraf, 2003: 1004; Barney, 1991: 105-106; Peteraf, 1993: 180). The RBV explains its ability to deliver sustainable competitive advantage when resources are managed in such a way that their outcomes are inimitable by competitors, which ultimately creates a competitive advantage or 'barrier' (Smith & Rupp, 2002: 48). As such, conceptualising the RBV involves considering several interrelated elements that are internal to the business, and consequently framing them within the context of an individual organisation. Because of this highly internalised perspective, it is not surprising that scholars and organisations alike have encountered difficulty with the RBV in terms of possible limitations and contradictions.

As mentioned, the RBV comes up against a number of criticisms, starting with its validity as a theory per se. As Priem & Butler (2001) point out, the RBV can be seen as tautological. Barney (1991: 106) defined a competitive advantage as a value-creating strategy that is based on resources that are, among other characteristics, 'valuable'. This reasoning is effectively circular and therefore operationally invalid. Furthermore, the 'rarity' criterion of RBV is flawed, if not obsolete. The concept that resources need to be rare to be able to function as a source of a sustained competitive advantage is superfluous (Hoopes, Madsen & Walker, 2003: 890), in that the implications of the other concepts (Value, Inimitability and Non-substitutability) are that any resource that follows from the previous characteristics is rare inherently. Regarding the 'sustainability' criterion, its lack of an exact definition makes its premise difficult to examine empirically. Barney's statement (1991: 102-103) that the competitive advantage is sustained if current and future rivals have ceased their imitative efforts is versatile from the point of view of developing a theoretical framework, but is a disadvantage from a more practical point of view, as there is no explicit end-goal.

Priem & Butler (2001) point out three other criticisms of the RBV. First, that different resource configurations can generate the same value for firms and thus would not be competitive advantage (and the theory's application becomes universal and therefore ineffective); second, that the role of product markets is underdeveloped in the RBV theory due to its highly internalised perspective; third and finally, that the theory has very limited prescriptive implications. This latter point, on the 'how to' aspect of the RBV, will be given more attention later. As well as Priem & Butler's (2008)

observations, other scholars argue that the VRIN criteria are inherently too hard if not impossible to fulfil (eg, Crook et al., 2008; Hoopers et al., 2003) and that measurements of a resource's VRIN value is subject to conjecture. Sanchez & Heene's (2004) work summarises a large bulk of scholarly criticism: that the RBV assumes there that a firm can be profitable in a highly competitive market as long as it can exploit advantageous resources, but this may not necessarily be the case, especially if it ignores external factors concerning the industry as a whole. A firm should also consider external issues, such as those expounded in Porter's Industry Structure Analysis, for example.

In consideration of extrapolatable criticisms of the RBV though, Lippman & Rumelt's (1982) early work highlights the long-term implications of the RBV's premises. As mentioned, a prominent source of sustainable competitive advantages is causal ambiguity (Lippman & Rumelt, 1982: 420). While the interplay between inimitability and causal ambiguity is valuable, if 'ambiguity' entails confusion and a lack of managerial comprehension about how to improve the business, this could negatively affect organisational performance. Through external market changes, the initial sustainable competitive advantage could be invalidated or could evolve into a weakness (Priem and Butler, 2001: 33; Peteraf, 1993: 187; Rumelt, 1984: 566). The RBV provides the understanding that certain unique existing resources will result in superior performance and ultimately build a competitive advantage. Sustainability of such an advantage will be determined by the ability of competitors to imitate such resources. However, the existing resources of a firm may not be adequate to facilitate future market requirements, due to

the inevitable volatility of contemporary markets. As a work-around to this sort of issue, Hoopes et al. (2003: 981) suggests a more expansive discussion of sustained differences among firms, and develops a broad theory of competitive heterogeneity. This at least helps refocus the RBV with a more external perspective.

According to the RBV the firms which perform better are those that hold valuable assets with certain characteristics. However, the RBV strategy cannot provide competitive advantage without being operationalised. Researchers often mention (eg. Priem & Butler, 2001; Hoopes et al., 2003), but have rarely addressed questions related to the operationalisation of the RBV. Operationalisation could at least formalise the theory's ideas and concepts into applicable models, facilitating all stages of strategy formulation and decision making processes. One cause of difficulty in operationalising the RBV, however, is its high level of abstraction. Strategic analysis should make clear why firms are able to get into advantageous positions and how they are able to sustain these positions (Black & Boal, 1994). Otherwise it would be difficult to recognise which RBV strategy will lead to sustainable advantage. Consequently, operationalisation is a unique opportunity for managers to benefit from the powerful strategy support that this theory can bring (Peteraf, 1993). Part of the operationalisation process would be the modification and development of resources aimed at surmounting future market competition. Morgan (2000) agrees, stating that the need to update resources is a major management task since all business environments reflect highly unpredictable market and environmental conditions. An organisation should exploit existing business opportunities

using the present resources while generating and developing a new set of resources to sustain its competitiveness in the future market environments (Chaharbaghi & Lynch, 1999: 45); hence, an organisation should be engaged in resource management and resource development (Song et al., 2002: 86; Afiouni, 2007). In order to create human capital resource diversity and immobility, an organisation must have adequate human capital management practices, organisational processes, knowledge management practices and systems, educational opportunity (both formal and informal) and social interaction (eg. community building) practices in place (Afiouni, 2007; Barney, 1991; Mata et al., 1995; Schafer, 2004).

Although not specifically addressed by the RBV, it is clear then that intra-organisational politics and culture are important factors in the debate (Bowen & Ostroff, 2004). To create a workforce that provides sustainable competitive advantage and value creation, an organisation must create an environment that allows their human capital to grow. This growth, expressed within people as increased knowledge, increased motivation, increased engagement, company reputation (Zander & Zander, 2005: 1521) etc., can be used to create sustained competitive advantage that would be very difficult for competitors to imitate. Additionally, by virtue of its progressive and constantly evolving nature, this growth could be seen to fulfil the RBV's entire VRIN criteria (Afiouni, 2007; Agarwal & Ferratt, 2001; Santala & Parvinen, 2007: 172). Because of its organisational implications, support for this sort of transformational scheme must come from the top of the political ranks in an organisation (eg. Wright et al., 2005; Sheehan et al., 2007), and

should be translated through substantive HRM initiatives and not limited to a tokenistic 'seat at the table' for HR (Sheehan et al., 2007).

It is suggested that the RBV holds some relevance for understanding the link between HRM and organisational performance, in terms of the attention it draws to the worth of human resources. Because of its inherent importability and lack of future-orientation, it is suggested that the Holy Grail can only be found beyond consideration of RBV in its current form. As mentioned, researchers should give due attention to operationalising (and simplifying) the RBV, as well as integrating additional theoretical considerations (eg competitive heterogeneity and political influence concerns). Accordingly, what is key for linking (S)HRM with organisational performance may still be an elusive answer. It can be surmised, however, that culture, politics, context and acknowledgement of the uniqueness of an organisation and its inability to be analysed statically as a theoretical or empirical unit, will help scholars and organisations alike develop a greater understanding of SHRM and its effects on performance, ergo its ultimate role in providing competitive advantage.

It can be surmised, however, that culture (organisational, ethnic etc.) and politics (intra-organisational, systemic), context (economic growth/recession, industry, etc.) and acknowledgement of the uniqueness of an organisation and its inability to be analysed statically as a theoretical or empirical unit will help scholars and organisations alike develop a greater understanding of SHRM and its effects on performance, ergo its ultimate role in providing competitive advantage.