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The resource-based view of strategy and its value to practising managers

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- *A dominant theoretical paradigm in academic strategic management circles is the Resource-Based View (RBV). This paper reviews the literature of this position and the extent to which the RBV may be seen as a source of practical guidance for managers seeking competitive advantage and strategic success.*
- *The theories of management academics should be of practical value to managers, otherwise such theories are of limited value. The test of the validity of theorizing about management is whether the theories produced help to improve the art of management. That is the criterion adopted in this paper.*
- *The RBV is an 'inside-out' perspective, according to which, competitive success lies within the hands of managers themselves and it is from the point of view of practising managers that this paper examines competitiveness. Consequently, the assessment of the RBV will be a purely instrumental one. Does it help managers to manage better?*

Introduction

The RBV is essentially an 'inside-out' approach to developing successful strategy. The firm is not the reactor of the positioning school but can find strategic success through the acquisition, development and deployment over time of scarce resources and skills which are either unique in themselves or in the way they are combined with other assets. The RBV claims its inspiration from classical microeconomics. It is the acumen and experience of managers and their ability to create unique advantages in the marketplace which are difficult, if not impossible, for other firms to emulate or compete away, which lay the foundations for value creation and sustained competitive advantage.

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The literature of the resource-based view – a summary

The literature within the RBV is quite eclectic with contributions from a variety of perspectives including organizational structures and cultures, managerial competence, technological capabilities and core competences. In consequence, that body of literature that describes the RBV is syncretic in nature and a central theme is quite difficult to identify. However, this view broadly sees the resource endowment of a firm as the principal source of strategy options rather than constant repositioning in the face of shifts in the external environment. The resources of the firm will provide the basis for its survival and success through time as external conditions in the environment change.

A central thrust of the RBV is the contribution of core competences as strategic assets which will be the continuing source of

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new products and services through whatever future developments may take place in the market, which by their nature, are unknowable. Thus the emphasis of the RBV approach to strategic management decision-making is on the strategic capability of the firm rather than attempting to constantly ensure a perfect environmental fit. According to McKiernan (1997):

> *The resource-based view has a long history. The rich vein can be traced from Marshall (1890), through Coase (1937) and Andrews (1949) to Penrose (1959).*

Although stemming from microeconomic theory, the tradition has departed from the steady-state, diminishing returns to scale model of the classical theory of the firm towards the difficult-to-model world of heterogeneous assets as the source of growth and performance asymmetries between firms. From a firm-level view the RBV approach sees the source of sustainable competitive advantage proceeding from the possession and deployment of strategic assets that demonstrate particular properties and characteristics that through market failure generate economic rents for successful companies.

Powell (1996), in the tradition of Schmalansee (1985), Wernerfelt and Montgomery (1988) and Rumelt (1991), demonstrated the relative importance of firm-level factors, as opposed to industry factors, in determining the financial performance of the companies he researched. This is fundamentally opposed to the positioning paradigm associated with Porter (1980). This stance is reinforced by Amit and Schoemaker (1993) who argue that success comes to managers with a company perspective rather than a view of strategy based upon industry perspectives. Vasconcellos and Hambrick (1989) enrich this insight by pointing out that an industry-based approach to strategy, driven by concepts of key success factors, would not explain the heterogeneous range of firm strategies and performance asymmetries which we actually see. Thus profit performance is determined by the deployment of firm resources and capabilities within the industry setting. The differing responses of managers will reflect a multitude of causes (largely the consequence of differing viewpoints), uncertainty, confusion, bias, experience, and other factors. (Kahneman, Slovic, and Tversky: 1982). This point is supported by Oliver (1997) who argues that decisions about strategy, even if based upon a rational analysis of strategic assets, will actually be made in a distinctive institutional environment with its own norms and values. Hence, bounded rationality will to a large degree determine decision-making processes and outcomes.

Collis (1994) believes that any advantage in the marketplace that might be enjoyed by a firm will in fact, be competed away by a competitor's *'higher-order capability'*. Thus, market failure in strategic assets will be overcome by other firms creating better strategic assets of their own. A key feature of Collis's view is the great importance placed upon management itself as a strategic asset driving the adaptability of firms and their ability to recognize market opportunities. This links with the importance of the idea of intangible assets as central to the RBV approach to understanding competitive advantage. Tangible assets may be relatively easy to imitate or acquire, but the real difficulty (market failure) is encountered in the case of intangible assets. Hall (1992) identified the importance of such intangible assets as know-how, product reputation, culture and networks, in contributing to the overall success of a firm. Hall (1992) saw these intangible assets as fundamental to the types of capability differential identified by Coyne (1986) as the basis for firm superiority. Thus, the asymmetries of performance between heterogeneous firms are very much driven by the intangible strategic assets. The intangible assets identified by Stopford and Baden-Fuller (1994) may essentially be defined as *corporate entrepreneurship*. These assets are exemplified by proactiveness, striving aspirations, a teamwork approach, dilemma resolution and a learning capability. This view may be considered in much the same light as Collis's (1994) proposition of management itself as a strategic asset determining the firm's ability to recognise market opportunities. Lovas and Ghoshal (2000) hypothesize that

> *Firms that are able to choose strategic initiatives which effectively exploit their existing human and social capital while, at the same time, facilitating the development of new, variable human and social capital, will perform better in the long run than those that are not able to achieve this synergy between exploitation and creation.*

This view is in a direct link with the ideas of Dierickx and Cool (1989) who wrote of the accumulation of strategic asset stocks over time through consistent investment. The development of strategic asset stocks is further examined by Prencipe (2001). Jennings and Seaman (1994), using Hage's (1965) organizational attribute typology, contend that the organization structure itself is proposed as a key strategic asset, determining the extent to which the firm is capable of delivering a selected strategy. Rather than supporting the idea of establishing strategy as a response to industry factors, they see the success or failure of strategy dependent upon the selection of the correct organization structure, which is of greater significance than the actual strategy selected, using in their case, the Miles and Snow (1978) typology. Their findings of no single best strategy but, on the contrary, support for the idea of equifinality, is a strong argument for the RBV, since this is a more intuitively attractive explanation for the firm heterogeneity and performance asymmetries actually observed. In other words decision makers are the architects of their environments.

Peteraf (1993), considering competitive strategy, sees the strategic assets as of both tangible (technology) and intangible (capability) types. The heterogeneity of firms is the source of economic rents and this heterogeneity is largely path dependent. In this context, Makadok (2001) discusses the alternative approaches to rent creation of *'resource picking'* (acquisition) and *'capability building'* (organic development). Interestingly, the importance of path dependency as a causal explanation would mesh with the evidence for equifinality emerging from the Jennings and Seaman conclusions. Implicit in the RBV is the idea of market failure and this leads Peteraf (1993) and Wernerfelt (1989) to the view that diversification is the logical process at the corporate strategy level in the attempt to seek to earn economic rents on potentially multiple-use resources which are in excess of the needs of core activities. This is consistent with Hamel (1994) who speaks of the longevity and transcendence of core competences (intangible strategic assets) and sees this as a basis, not for product/market-specific strengths of the organization in a particular setting, but for the source of competitive products and services over time. This reflects the distinction between adaptation and adaptability, which are quite different in any consideration of an organization's chances for evolutionary survival. This theme of adaptability is expanded by Bogaert, Martens and Van Cauwenbergh (1994) who note the central role of managers deploying experience and game skill in fitting the strategic assets to elusive and mutating environmental settings. The perceptiveness of the actors (managers) in interpreting environmental signals is, therefore, an aspect of the tacit strategic asset of effective management itself and is redolent of Collis's (1994) *'metaphysical strategic insights'*. In this vein, Krugman (1994) reminds us that frequently irrational phenomena, well understood by managers, can form the basis of strategic value, reinforcing the insight into the role of managers in conditions of market failure. An interesting variation on this theme is the idea of *causal ambiguity*. King and

Zeithaml (2001) argue the importance of causal ambiguity from the viewpoint of not only competitor firms but also of the focal firm. The reasoning is that causal ambiguity is necessary not only to prevent managers in other firms from understanding the link between resources and performance in the focal firm, but it is also necessary among managers within the focal firm itself so that knowledge of causal links cannot be exported intact from the focal firm. If this is true then it would appear to be important that successful managers are not sure what they are doing right. This is augmented by Whittington's (1994) view of the processual approach to understanding strategic management processes, whereby managers create value and advantage by deploying competences and focusing on the imperfections of organizational and market processes. Alvarez and Barney (2000) suggest that the inclusion of entrepreneurship as a class of inimitable strategic asset will enhance the RBV. They have in mind such management attributes as agility, creativity and fast decision making.

According to Powell and Dent-Micallef (1997), assets should be composed into a complementary bundle embedded in the structure of the firm and its culture, which accords with Powell (1995) and Hansen and Wernerfelt (1989) who stress the greater importance of embedded cultural and behavioural features rather than economic or technical process factors, for the explanation of firm performance and inter-firm performance asymmetry. The complementarity is the path-dependent form which the unique competence of the firm takes and this reminds us of Robinson's (1958) observation of the 'organic' nature of the firm and Grant's (1991b) description of the characteristics of strategic assets, namely, durability, transparency, transferability, and replicability. Ramaswamy, Thomas and Litschert (1994) and Major and Van Wittleoostuijn (1996) researched highly regulated market environments and found the importance of management and qualified labour as the key to business success. These were the principal strategic assets. It is necessary though, to consider their findings with some degree of caution, since a principal concern is the basis of competitive advantage in contestable markets. In considering the current literature of competences, Tampoe (1994) reminds us that although Parsons (1960) had pointed out over thirty years earlier that the distinctiveness of a firm was a function of its technical core, there was little detailed guidance in the literature how an organization might identify and deploy core competences.

Interestingly, Inkpen and Choudhury (1995) consider that the absence of a formal or explicit business strategy can be interpreted as a virtue if it reflects a state of constructive ambiguity underpinning an adaptive flexibility within the firm. For Ghemawat and Ricart i Costa (1993), the key to strategic advantage lies in the ability of the firm to use information to learn about the possibilities for developing new products, processes, or capabilities as the substance of dynamic efficiency. Again, this echoes Collis's (1994) *'metaphysical strategic insights'* and also Baden-Fuller and Pitt's (1996) view that the adaptive test of management lies in its ability *'to recognize where markets will be tomorrow'*. For Pettigrew and Whipp (1991), success will depend upon the *'uncertain, emergent and iterative process'* of the effective management of change. For them this is the central intangible asset.

Mahoney and Rajendran Pandian (1992), building on Penrose (1959), Hofer and Schendel (1978) and Grant (1991a), hold that the only long-term limitation on a firm's growth potential is its management resources. The 'Penrose effect' (Marris, 1963), in which firms are seen to experience

The only long-term limitation on a firm's growth potential is its management resources successive periods of growth and slowdown, is explained in terms of the capacity of management to devote enough of itself to the pursuit of growth rather than maintaining the status quo. Thus, not only is management the source of growth, it can also be the source of stagnation. The strategic value of management is in its ability to adopt different styles at different stages of firm growth. This perspective is similar to that of Greiner (1972) who concluded that organizations should change management style appropriately for successive phases of organizational growth.

The theme of managerial competence as the key strategic asset is further propounded by Mehra (1996) for whom the deployment of assets (a management function) is more important than the tangible resource endowments themselves. Greenley and Oktemgil (1996) consider the concept of *'isolating mechanisms'* that they describe, in effect, as the idiosyncratic competences of firms. These lead to a number of strategic benefits, principally entrepreneurial heterogeneity. Once again the role of management competence and experience (Bogaert *et al.*, 1994) are uppermost in this view and with their idiosyncrasies, are seen centrally as inimitable and non-tradeable assets. Oliver (1997) cautions against the RBV as the sole source of our understanding of performance asymmetry and argues that asset deployment needs to be seen in the context of institutional features that may limit adaptability and flexibility. However, it may be argued that Oliver, in asserting the importance of key intangibles such as culture and management style, puts her own position well within the RBV camp.

The importance of intangible assets is also discussed by Black and Boal (1994). Their key and important point is the need for strategic assets to be combined in synergistic relationships. The assets may be present but unless the appropriate organizational disposition and managerial awareness is present the synergy will not be acquired. This amplifies effectively, Oliver's (1997) point above and is in turn supported by Helfat (1997) who argues that the complementarity of resources is central to the realization of the value potential of strategic assets. It is this complementarity that Teece and Pisano (1994) and Teece, Pisano and Shuen (1997) have called *'dynamic capabilities'*, defined by Eisenhardt and Martin (2000) as:

> *The antecedent organizational and strategic routines by which managers alter their resource base — acquire and shed resources, integrate them, and recombine them — to generate new value-creating strategies (Grant, 1996; Pisano, 1994).*

In effect this view sees the routines referred to as 'best practice' which itself may attract the criticism of being a *post facto* evaluation. Barney and Griffin (1992) assert the dynamic nature of resources in organizations and provide their VRIO framework of asset rating: Value, Rareness, Inimitability and Organizational orientation.

Critique of the literature

The RBV is the attempt in recent years to develop the original classical microeconomic theory of the firm in order to examine the vital behavioural features of the variables embedded within it. The theory of the firm was seen as a non-dynamic, steady-state model which, in itself, was not capable of explaining the diverse nature of industries with heterogeneous firms and performance asymmetries that was evident in the world. It is important that the RBV is seen as the development of the theory of the firm, rather than a replacement for it. Many of the writers in the classical tradition realized its imperfections as a model of reality, but they also understood it as a powerful tool for analysing the dynamics of competitive behaviour as a *concept* within the economist's traditional, analytical framework.

In summary we can collect the various characteristics of strategic assets as follows in **Figure 1**. The central message of the RBV is that strategic assets are essentially *intangible* and therein lies the paradox. How do managers recognise, define and shape

Strategic assets — characteristics	
Tangible	More easily competed away
Intangible	Less easily competed away

Features

- Inimitable
- Non-tradeable
- Tacit
- Durable
- Competence
- Capability
- Institutional
- Complementarity
- Metaphysical insights
- Competitive advantage an internal rather than external paradigm

Figure 1. The principal characteristics of strategic assets within the RBV literature.

the intangible? The features in **Figure 1** are either abstract nouns or adjectives and provide little of a concrete nature that managers could use as a touchstone. These words are of a highly generalized and qualitative nature and contain a vastly diverse range of potential meanings. It is this imprecision in terms that render real meaning unascertainable. It is this largely rhetorical nature that may render the RBV unusable in practical terms.

The RBV and managers

The theory appears in many respects to be a means only of providing *ex post facto* analysis and assessment of successful firms. The literature seems to offer little in the way of guidance to managers seeking to create strategic assets. The theory says little about how strategic assets are created or where they come from within an organization. It is not possible from the argument of the RBV to look at a particular asset of a firm and to know *a priori* whether that asset will prove in the future to be a strategic asset.

The insights of the RBV would appear to require the endorsement of history for their validation. The discussion of strategic assets within the literature takes them as a starting point and to this extent the RBV, as an explanation of strategic success, would appear to be essentially tautological, proffering the idea, in essence, that successful firms deploy assets superior to those of less successful firms. The theory does little to advance us from the position of seeing strategic assets as accidents of history, which can be subsequently shown to have been the result of certain resource strengths in combination with certain benign environmental conditions. Thus success is a path-dependent phenomenon, the product of human imagination, creativity, luck and adventitious environmental events. Thus, we are driven to the conclusion that the usefulness of the RBV is of a descriptive rather than explanatory nature and as such does not equip strategists with practical competitive advantage-building propositions.

Furthermore, the theory describes successful organizations with market power that, by definition, are likely to be a small proportion of the corporate population. Managers in smaller businesses that are not 'big names' or industry leaders normally operate in a fashion that is typically:

- Operations and cost focused
- Customer driven
- Reactive
- Concerned with short-term results
- Planned within a steady-state industry model

(See, for example, Beaver and Jennings 2000).

In these circumstances the stimulus for management decision making is usually provided by external pressure which, in combination with a probably price-elastic demand function, would suggest that for small businesses the idea of strategic assets with their concomitant of market power is inappropriate. In the absence of market power and facing a demand curve of dominant buyers there appears little, if any, scope for such managers to pursue the creation of strategic assets as envisaged by the RBV — even if the RBV were capable of providing specific guidance in this respect. Our knowledge of the business world tells us that there is a large class of firms that are successful in a modest way but with no sustainable long-term advantage in the form of strategic assets.

In a general sense the thrust of the RBV is to stress the importance of diversity for potential strategic success. In effect it strongly suggests the reality of equifinality. Thus if managers can learn from the theory that there is no one best way to success then this might prove to be a benefit. However, it must be said that good managers have probably always known this anyway. It is this point that probably encapsulates the essential paradox that appears to lie at the heart of the RBV. The theory describes successful organizations. Unsuccessful organizations are, by definition, unequipped with strategic assets and managers in them would probably not know how to use the descriptive insights of the RBV in a creative manner.

Conclusions

In considering the RBV as a means of improving corporate performance and understanding the sources of corporate success it would probably be appropriate to conclude that it is ill-advised to bifurcate into environment-positioning-based and resource-based theories. Each of these approaches combines with the other to provide an integrated understanding of the process of seeking the highest probability of strategic success. In fact to use a concept from the RBV, *'metaphysical insight'* as a strategic asset is the ability to understand in a special way the nature of the environment and the future it potentially holds. Spanos and Lioukas (2001) sensibly suggest that successful company performance is better explained by linking industry and resource perspectives in combination rather than promoting one or the other approach as the superior and complete explanation. McGuinness and Morgan (2000) have also cast doubt on the capacity of the RBV (or *dynamic capabilities* approach as they prefer) to provide prescriptive help to managers. They suggest a more fruitful theory of strategy formulation may emerge from complexity science. It must be said that further research is needed if we are to be able to define the contexts within which the RBV as a partial theory, is applicable. Without this it will not be possible to use the RBV systematically as a means of synthesis or a source of competitive prescriptions.

Generally the RBV literature seems to raise more questions about the nature of competitiveness and strategic success than it answers. In particular, we are faced with the problem of an absence of any firm definition of the concept of competitiveness. To be of use, a definition must be expressed in terms of identifiable and measurable properties. If this is not the case, the definition, such as it is, will merely be an imprecise assertion susceptible of a range of interpretations. Its imprecision will render it of little, if any value, in purposeful management discourse.

The RBV literature seems to raise more questions than it answers

In conclusion, the RBV appears to leave unaddressed a number of key questions that may render it ineffective as a rubric for practising managers. Such questions are:

- What *determines* strategic assets?
- How do we *recognize* a strategic asset?
- How do we plan to *develop* intangible strategic assets?
- How do we *assess* the life span of a strategic asset?

For managers these are key questions relating to the fundamental issues of business performance and exemplify Tampoe's (1994) observation of the lack of detailed guidance in the literature about the creation of strategic assets. It is facile to expect academic theoreticians to provide managers with clear prescriptions for successful business initiatives.

The contribution of the academic should be to help managers:

- Clarify issues
- Provide analytical constructs and
- Help improve managerial productivity and effectiveness.

If achieved, these are concrete outcomes and are the measures of the value of the academic contribution. These are the criteria against which the RBV needs to be evaluated. In the view of this observer the RBV fails to meet them.

Biographical note

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