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P.O. Box: 71400, 1st Floor, Bur Dubai Traffic Department
Sheikh Zayed Road, Al Barsha, Dubai, UAE.

Phone or Fax : Tel: +9714 4088444 Fax: +9714 4088555

Critique of the Resource-Based Theory of the Firm

**Professor Djamel Eddine Laouisset
e-TQM College, Dubai, UAE**

Abstract

This research paper tries to shed a critical light on the analytical contribution of the resource-based theory of the firm in the domain of competitive analysis. It concludes that this theory does not give sufficient weight to surrounding environmental contingencies of the firm.

1. Introduction

A firm's sustained competitive advantage is primarily determined by its resource endowments, core competencies and capabilities (Barney, Grant 1994) (1). Such characteristics of resources and capabilities are important in sustaining competitiveness due to:

- I. Durability: The rate at which a firm's underlying resources and capabilities depreciate or become obsolete;*
- II. Transferability: The ability of competitors to gather the resources and capabilities necessary to support a competitive challenge;*
- III. Transparency: The speed with which other firms can understand the relationship of resources and capabilities supporting a successful firm's strategy;*
- IV. Replicability: The ability of competitors to use resources and capabilities to duplicate a firm's success.*

As such, the resource based view of the firm looks to differences in firms' distinctive assets and capabilities, rather than differences in operating scale and scope, to explain variations in performance.

In fact, there are no substitutes for these assets and capabilities, since they are difficult to buy in the market or duplicate internally. As a result, firms that possess them are better positioned to deliver superior profitability (2).

2. Transferability of Resources and Competencies

According to the resource-based approach, the most important knowledge concerns the methods the firm uses in building and developing its resources and competence assets (4).

Some important questions for corporations may emerge such as:

- I. How can firms create strong and distinctive asset of specific resources and competencies?*
- II. How can firms protect themselves from imitation strategies implemented by competitors?*
- III. Is it possible to easily transfer resources to corporations?*
- IV. Which resources are available in markets?*

In fact, the resource-based view introduces **two** key issues, responsible for the different results that firms could obtain in implementing their strategy:

- A. Imperfect resource mobility and;*
- B. Barriers to imitation of competitive advantage (3);*

1) Imperfect Resource Mobility:

Seemingly, some resources do not flow freely among firms and between firms and markets. These resources, and the competencies created

in using them have been called sticky. Once purchased or internally created, they remain bound to the firm, developing a higher value than if they were used outside. As it has been pointed out (Paterof, 1997), because immobile or imperfectly mobile resources are non-tradable or less valuable to other users, they cannot be bid away readily from their employer. Therefore, the construction of solid competitive advantage relies on these firms' specific and not easily transferable resources;

2) Barriers to Imitation:

Factually, the barriers to imitation are determined by many different factors, all involved in creating a sort of cloud cover, which protects those firms which have already developed a sustainable competitive position.

Some of the most important causes of the creation of barriers to imitation being:

- Relationships among resources;*
- External economies and inter-firm relationships;*
- Uniqueness of historical and temporal conditions.*

3. Critique of the Resource-Based View of the Firm

The resource-based view, focusing on the firm's resources and capabilities, has encouraged the development of more firm-dedicated research. However, it is weak in some respects, mainly in its contribution to strategic management (5).

One question will therefore emerge here:

Is the resource-based view likely to be useful for building an understanding in corporations' strategic management?

Let us start by saying that some of the noted significant weaknesses of the resource-based view would be:

- I. The resource-based view is limited to the consideration of the firm out of its industrial context ;*
- II. The resource-based view is unable to identify the causal mechanisms responsible for creating a durable competitive advantage. The only result seems to be a list of resources, some well known, and others less so, without explaining more precisely the way in which resources and competencies are transformed into competitive advantages. Furthermore, the different kinds of resources listed by the resource approach are too many to be of any practical help;*
- III. The resource approach does not give that much importance to the influence of past decisions on the actual behavior of firms.*

Is the sustainability of competitive advantage the real focus? Is it possible to imagine the constant creation of new short-term competitive advantages in a hyper competitive environment?

Answering these questions according to us is crucial in defining the idea of sustainable competitive advantage in corporations. In fact, corporate managers demand more concrete tools to guide their strategic decision process.

How can therefore the competitive advantage analysis be helpful to their needs?

4. New Contribution to Literature on Competitive Analysis

The new research agenda does not neglect the importance of internal research as demonstrated by the resource-based view (6). Among criticisms raised, the most interesting in our view, in order of importance would be:

- I. The Proposal of joining different approaches (Amit, Shoemaker) (7)*
- II. The Study of commitment (Ghamawat, 1997) (8)*
- III. The Hyper competition and short term competitive advantages (D'Aveni, 1994) (9)*

Suggesting joining different approaches seems an acceptable proposal (Amit, Shoemaker, 1998) as it does not reject the resource-based view and its idea of competitive advantage.

It only emphasizes the possibility of using different conceptual tools simultaneously, by following a multiperspective approach. It emphasizes the key role played by some elements and their influence on industry and consequently the strategy process of the firm.

Therefore, the elements on which we think corporate management focus would be are:

- I. Uncertainty: Industrial environments, such as technology and society, which are characterized by a growing degree of uncertainty;*
- II. Complexity: The different elements and components of the environment as they relate to each other in a very complete way;*

III. InterOrganizational Conflicts: Organizations develop a great number of conflicting relationships among employees, among managers and between both groups.

Nevertheless, let us say that such an uncertain, complex, and conflicting environment requires more refined research tools. This requirement is satisfied by the use of a sum of different approaches, each one focusing on a single aspect of reality, but able to explain the real nature of competition when all are brought together.

In fact, the resource-based view is important because of the focus on the firm, but a complete analysis of competitive advantage requires specific analytical instruments.

These analytical instruments could be identified within the following themes:

- I. The industrial analysis approach: to better, understand the structure of each industry;*
- II. The resource view: to study resources and competencies internal to the firm;*
- III. The behavioral decision theory: to investigate the decisional and behavioral patterns used by corporate managers.*

More precisely, these above cited themes, rather emphasize the importance of studying the investment decision process of actors with bounded rationality. They give due importance to showing events such as power relationships internal to any management system, conscious or unconscious deviation from rational decisional criteria. These aspects are factually responsible for deviating the rationality of management and influence investment choices.

5. Competitive Advantages and Commitment

Ghemawat (1991) emphasizes the need to change focus, switching from the analysis of competitive advantage to the analysis of the idea of commitment. He points out that resources and competencies considered by the resource view are so difficult to identify and too numerous to be studied in a more concrete way.

The result is that the analysis proposed by the resource view is not very useful in helping management in the decision process. Furthermore, the resource-based view does not readily give due importance to temporal patterns of strategy implementation.

However, if Ghemawat (1991) does not completely reject the central role played by the firm, he simply rejects the argument that the focus should be on studying the creation and accumulation of resources. Instead of the resources creation process, the emphasis is rather on the importance of commitment concept. In fact, maintaining a successful position requires higher investments in sustaining and creating new resources and competencies.

Therefore, a strong relationship does not exist between competitive advantage and how investment decisions are managed. If one considers this relationship, commitment becomes the new key word in studying the investment decision upon which the creation of competitive advantage is based.

Commitment emerges as the mechanism responsible for “*strategic persistence*” and managers must study how this particular

mechanism operates, in order to gain more conscious knowledge of investment choices, looking at cost-benefit analysis as the most useful tool to use.

In fact, firms tend to replicate past strategies in a sort of cycle whereby inertia and lag mechanisms operate to maintain the same conduct, beyond and sometimes in opposition to pay off evaluation results.

In this case, firms can be locked in or unlocked out of some strategy choices, losing the opportunity of being more flexible in their decision process. It is therefore, necessary to analyze carefully the decision process upon which investments are based.

The tool, as suggested (Ghemawat, 1998) is cost benefit analysis, directed to single out the set of costs and benefits involved in investment decisions. In this way, firms should recognize when it would be better to change strategy and when to continue on the same path. In this process, flexibility becomes an invaluable way of permitting firms to create and sustain its competitive advantages (10).

This analysis is quite useful because of the attention it accords to flexibility and inertia mechanisms; it gives a focus on management needs, though however lacking somehow clarity.

6. Hyper Competition and Short Term Competitive Advantages

Hyper Competition (Di Aveni, 1994) indicates the new and radically different scenario in which firms compete. This approach develops into a radical critique of the sustainability of competitive advantage.

Rightly, in a traditional competitive environment, firms can build a successful strategy that will be translated into a solid and durable competitive position, based on developing those distinctive capabilities that characterize the single firm.

Hyper competition is a faster form of competitive environment, but more importantly, it is a different rule of behavior and responds to the market needs with rapid changes as strategy. Nevertheless, hyper competition constrains firms to find continuously new ideas to compete, creating and destroying ever-newer competitive advantages.

7. Conclusion

Only a truly dynamic strategy, a continuous change, will allow firms obtain a stable and successful position in markets. As such, the main purpose of firms is not the creation of specific capabilities, which enable it to gain a particular competitive advantage; the real strength is its capability to realize ever new and different short-term competitive advantages. Although the resource-based view of the firm began as a dynamic approach, much of its literature is static. It identifies generic characteristics of regenerating resources without much attention to changing situations and resources. Therefore, we can say that though the resource-based view can be a boon to a firm in terms of competitive advantage, it can also be a disadvantage, being merely a static theory.

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