CONTRIBUTION TO A CRITICAL REVIEW OF THE RESOURCE BASED VIEW OF THE FIRM

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Abstract

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

ملخـــــص:

يعتبر هذا البحث بمثابة دراسة نقدية للمساهمة التحليلية للنظرية المؤسسة على موارد الوحدات الاقتصادية في مجال تحليل المنافسة.

خلاصة البحث تركز على الطبيعة غير الديناميكية لهذه النظرية التي لا تعطى الأهمية الكافية للعوامل البيئية الموقفية التي تؤثر بقدر كبير على الأداء العام للوحدات الاقتصادية.

INTRODUCTION:

What is the resource based view all about?

A Company'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 that are important in sustaining competitive advantage would be the following:

√ **Durability:** The rate at which a firm's underlying resources and capabilities depreciate or become obsolete.

√ **Transferability:** The ability of competitors to gather the resources and capabilities necessary to support a competitive challenge: some resources such as brand names may be difficult to transfer without purchasing them.

√ **Transparency:** The speed with which other firms can understand the relationship of resources and capabilities supporting a successful firm's strategy (a capability that requires a complex pattern of various resources is more difficult to comprehend than a capability based on a single key resource).

√ **Replicability:** The ability of competitors to use resources and capabilities to duplicate a firm's success (the competitor may fail to identify less visible coordination mechanism or fail to note that the behaviors of another company's brand manager may conflict with it's own corporate culture).

As such, a 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)].

- **The Problematic Question of 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 it's resource and competence assets[(4)]. Some important questions may emerge, such as:

√ How can the firm create a strong and distinctive asset of specific resources and competencies?
√ How can the firm protect itself from imitation strategies implemented by its competitors?
√ Is it possible to easily transfer resources to different contexts?
√ Which resources are available in the market?

In fact, the resource – based view introduces two key issues, responsible for the different results that firms could obtain in implementing their strategy: **imperfect resource mobility** and **barriers to imitation** of competitive advantage[(3)]:

The Imperfect Resource Mobility: Seemingly, some resources do not flow freely among firms and between firms and the market. 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 by Paterof, (1997), immobile or imperfectly mobile resources are non-tradable or less valuable to other users, they cannot bid away readily from their employer. Therefore, the construction of solid competitive advantage relies on these firm specific, and not easily transferable, resources.

The 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 are:

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

Critique of the Resource – Based View.

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. It is also weak in its contribution to strategic management(5).

One problematic question will therefore emerge here:

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

Some of the noted significant weaknesses of the resource-based view would be:

- **The resource-based view is limited to the consideration of the firm out of its industrial context** distinctive resources and capabilities are taken into account without considering industrial factors, which influence the firm's strategy.

- **The resource-based view is unable to identify the causal mechanisms responsible for creating a durable competitive advantage** the relationship between resources and competencies on one side and competitive advantage and success on the other side is not explained. The only result seems to be a list of resources, some well known, others less so, without explaining more precisely the ways 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.

√ **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 fact, company managers demand more concrete tools to guide their strategic decision_processes. How can, therefore, the competitive advantage analysis be helpful to their needs?

- New Contributions to the Literature on Competitive Analysis.

The new research agenda does not neglect the importance of internal research as demonstrated by the resource-based view[(6)]. It tries to answer some of the criticisms raised. Among the contributions of the last years, the most interesting in our view, in order of importance, would be:

√ The proposal of joining different approaches (Amit, shoemaker[(7)]).

√ The study of commitment (Ghamawat, 1997[(8)]).

√ Hyper Competition and short-term competitive advantages. (D’Aveni, 1994[(9)]).

- **The proposal of joining different approaches:** this proposal (Amit, Shoemaker, 1998) does not reject the resource-based view and it’s idea of competitive advantage. They emphasize the possibility of using different conceptual tools simultaneously, following a multi-perspective approach. They emphasize the role played by some elements and their influence on industry and consequently, the strategy process of the firm. The elements on which we think they focus would be:

√ **Uncertainty:** Industrial environments, such as technology and society, are characterized by a growing degree of uncertainty.

√ **Complexity:** The different elements and components of the environment relate to each other in a very complete way.

√ **Inter-Organizational Conflicts:** Organizations develop a great number of conflicting relationships among employees, among managers and between these two groups.

But, obviously, let’s say that such an uncertain, complex, and confliction 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 brought together.

As a matter of fact, the resource-based view is important because of the focus on the firm, but a complete analysis of competitive advantage requires more research tools. These tools could be identified in the following themes:

√ **The industrial analysis approach:** to better understand the structure of each industry.

√ **The resource view:** to study resources and competencies internal to the firm.

√ **The behavioral decision theory:** to investigate the decisional and behavioral patterns used by managers.

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

- Competitive Advantage 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) doesn't 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 resource creation process, the emphasize 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 consider this relationship, commitment becomes the new key work in studying the investment decisions 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 locked 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 suggested (Ghemawat,1998) is cost-benefit analysis, directed to single out the set of costs and benefits involved in investment decisions.

In this way the firm should recognize when it would be better to change strategy and when to continue on the same path. In this process, flexibility becomes and invaluable way of permitting the firm to create and sustain its competitive advantage(10).

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

- Hyper-Competition and Short-Term Competitive Advantages.

Hyper-competition (D'Aveni, 1994) indicate 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 way of competing. Therefore, firms must follow different rules of behaviors and respond to the market needs with rapid changes as strategy.

Hyper-competition constrains firms to find continuously new ideas to compete, creating and destroying ever newer competitive advantages.

CONCLUSION: Statism vs Dynamism?

To conclude let's say that only a truly dynamic strategy, a continuous change will allow the firm to obtain a stable and successful position in the market. As such the main purpose of the firm is not the creation of specific capabilities, which enable 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 view began as a dynamic approach, much of its literature is static. It identifies generic characteristics of regenerating resources without much attention of changing situations and resources.

Therefore, we can say that, though the resource-based view can be a boom to a firm in terms of competitive advantage, it can also be a disadvantage. When we say it is a disadvantage, we mean that it can be a static theory.

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