Resource-based View of the Firm and Competitive Advantage
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Abstract

The resource-based view (RBV) of the firm offers a further perspective to marketing strategists that concentrates on key resources of the firm and how they might influence sustainable competitive advantage (SCA), rather than the industry perspective more often applied by marketers. In this paper it is argued that the model developed by Fahy (2000) offers a concise picture of the elements that impact on the firm which can be further developed to explain competitive advantage. A research approach using an interview schedule is proposed as an appropriate methodology by which to explore the key intangible assets and capabilities (key resources) and the process by which high performing firms identify, develop, deploy and protect their key resources in sustaining competitive advantage. The outcomes of studies based on this research question have implications not only for the debate over the role of industry structure versus key resources in explaining a SCA, but for marketing strategists who seek every opportunity to manipulate and manage the variables that influence competitive advantage.

Introduction

The task of assessing the advantages and disadvantages of a business relative to its competitors is complex and marketing strategists have for some time adopted a multidisciplinary approach to gain a fuller understanding of this issue (Day and Wensley, 1988; Bharadwaj, Varadarajan and Fahy, 1993; Day and Nedungadi 1994; Hunt, 2001). A theory that has gained considerable attention in academic literature, the RBV of the firm, identifies key resources of the firm as the source of sustained competitive advantage (SCA). The term “resource-based view of the firm” was originally developed by Wernerfelt (1984) and a substantial body of literature now exists which explores the role of key resources in creating a SCA. The RBV highlights the firm as a unique collection of resources and capabilities, some of which possess the particular characteristics of value, barriers to duplication and appropriability. The RBV contends that the possession of such key resources and their effective development and deployment allows firms to achieve and sustain competitive advantage. The RBV differs from other explanations of competitive advantage in seeking internal reasons for superior performance. The source of economic rent according to industrial organization economics emanates from external influences such as industry structure, government intervention, collusive arrangements and revolutionary innovations. Fahy (2000) contends that firms that possess superior key resources can develop a sustained competitive advantage if barriers to duplication by rivals exist. The purpose of this paper is to design a vehicle to operationalise Fahy’s conceptual framework and develop a research approach to explore the way that key resources have influenced high performing firms.

Literature Review

The potential importance of firm-specific resources was recognised long before the 1980’s with economic theory highlighting the impact of firm heterogeneity on competition and attainment of above-normal profit (Chamberlin, 1933). Strategic marketing and management literature also focuses on competitive advantage (Porter, 1980) and the role of firm
strengths/weaknesses. The literature now labelled the RBV is substantial and in some cases has gone so far as to propose the RBV as a “new” theory of the firm (Connor, 1991; Hunt and Morgan, 1995). A number of articles put forward frameworks for evaluating the RBV and assessing the characteristics that resources need to possess in order to confer a SCA. Barney (1991) proposes a framework using four primary attributes - value, rareness, inimitability and non-substitutability. Dierickx and Cool (1989) consider the role of firm-specific assets accumulated over time and identify the characteristics of critical resources as time compression diseconomies, asset mass efficiencies, inter-connectedness of asset stocks, asset erosion and causal ambiguity. Makadok (2001) develops a theory incorporating both ex-ante resource selection and on-going capability-building as generators of economic rent and examines the interaction between the two mechanisms – in particular whether they are complements or substitutes. Peteraf (1993) provides an economic perspective of the RBV of the firm which highlights four conditions necessary for a SCA – resource heterogeneity, resource immobility, ex-ante and ex-post limits to competition - and the model developed is applied to issues such as single-business strategy and diversification. Collis and Montgomery (1995) provide a clear exposition of the RBV and its role in strategy and contend that resources must pass tests as to their inimitability, durability, appropriability, substitutability and competitive superiority in order to qualify for an effective role in strategy. Resources which meet these criteria then need to be invested in, up-graded and leveraged to provide superior returns. Markides and Williamson (1996) focus on the sustainability of competitive advantage. They contend that identification of strategic assets is not sufficient to sustain advantage and continual creation of new key resources is required.

According to Mahoney and Pandian (1992) a valuable contribution of the RBV is that it creates ‘conversation’ between scholars from three research perspectives – strategy, organisational economics and industrial organization. This provides a framework for dialogue, debate and research between these perspectives. Marketing scholars such as Day and Wensley, 1988; Bharadwaj, Varadarajan and Fahy, 1993; Day and Nedungadi, 1994; Hunt, 2001; and Fahy, 2000, have joined in this discourse. Of particular interest in this paper is the work of Fahy (2000), who presents an integrated view of the RBV clarifying a number of conceptual issues and proposing a framework upon which future empirical research can build. Fahy uses this model (Figure 1) to demonstrate the linkages discussed in earlier contributions to the resource-based view of the firm, namely “…the firm’s key resources and the role of management in converting these resources into positions of sustainable competitive advantage (and) leading to superior performance in the marketplace” (Fahy 2000, p.99).

**Conceptual Framework: Fahy’s Model**

Fahy’s concern was to highlight that the value of the contribution of different resources can vary in achieving sustainable competitive advantage and that “management” plays a significant role in planning resources accrual and deployment. The key resources section of the model is highlighted in Figure 1 and is the focus of attention in this paper.
Fahy’s definition of resources includes all the firm’s inputs/factors of production under the ‘resources’ label. Within this broad definition he distinguishes three categories of resources – tangible assets, intangible assets and capabilities – with differing characteristics of value, barriers to duplication and appropriability for the firm.

Intangible assets are often complex and specific resources that build barriers to duplication by virtue of inimitability, immobility and non-substitutability (Fahy, 2000, p.97). Markets in which to trade them do not exist making them difficult to value and ‘relatively resistant to duplication efforts by competitors’ (Fahy, 2000, p.98). They are difficult to imitate, hire away and substitute since they result from ‘accumulated firm-specific activities’ (Fahy, 2000, p.98). Their value is enhanced by the ability to deploy them concurrently in multiple uses creating economies of scope (Amit and Schoemaker, 1993). Resources such as reputation, client trust and loyalty are affected by the firm’s values, attitudes, and ethics and accrue over time as a result of a ‘history of honest dealings’ (Dierickx and Cool, 1989). Based on personal contacts they can take a long time to nurture and grow, helping to build ‘switching costs’ (Peteraf, 1993, p.183) for the client and promoting loyalty and a longer relationship.

Capabilities, like intangible assets, are difficult to value as their idiosyncratic nature precludes their tradeability on open markets (Williamson, 1979). Organisational culture, knowledge and trust between managers and employees are deeply rooted in the organisation’s history and cannot be traded or easily replicated by rivals. In many instances capabilities result from interaction between people, which may lead to ‘causal ambiguity’ and ‘tacitness’. Causal ambiguity is a crucial factor in building barriers to duplication and is typically considered from the competitor’s perspective, that is, the competitor is unable to identify the ingredients in the superior performance of the firm and hence is unable to duplicate it. From this perspective causal ambiguity is positively associated with firm performance. An alternative view (Reed and DeFillippi, 1990, p.90) is that if causal ambiguity is high the firm itself may not understand the linkage between capabilities and performance, making it impossible to utilise and develop the capabilities. Resources may also exhibit ‘complementarity’ which exists when the combined value of resources exceeds the sum of the cost of developing each asset individually (Amit and Schoemaker, 1993). This combined value is jointly produced – it is as much due to the firm context as to the resource – and the specialised resource is not so valuable apart from the firm. An additional value associated with capabilities is their ‘slow decay rate’ since the knowledge embodied in them can be passed on without significant knowledge degradation to successive ‘generations’ of team members. In fact most
capabilities are enhanced with use (unlike tangible assets) as more experience is gained (Amit and Schoemaker, 1993).

To begin to operationalise Fahy’s model, a research approach has been designed to investigate the influence of key resources (summarised in Figure 2) on a firm’s ability to sustain competitive advantage.

**Figure 2: Key Resources Identified by Fahy**

<table>
<thead>
<tr>
<th>Key Resources</th>
<th>Capabilities</th>
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<tbody>
<tr>
<td><strong>Intangible Assets</strong></td>
<td></td>
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<tr>
<td>Intellectual property</td>
<td>Team-embodied knowledge</td>
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<tr>
<td>Client trust</td>
<td>Organisational cultures</td>
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<tr>
<td>Reputation</td>
<td>Organisational history</td>
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<tr>
<td>Databases</td>
<td>Learning-by-doing</td>
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<tr>
<td>Networks/communication systems</td>
<td>Managerial skill</td>
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Research Question: How do key resources (firm-specific intangible assets and capabilities) influence firms’ abilities to sustain competitive advantage?

High performing firms’ superior performance needs to be explored through a search for evidence of their ability to identify, develop, deploy and protect key intangible assets and capabilities. For this purpose an interview schedule has been designed to elicit firms’ views of how key resources bear on sustainable competitive advantage. This approach was considered appropriate to ensure there was optimum opportunity to probe the elements of the interplay between key resources and performance. The semi-structured interview design proposed to collect data (Cassell and Symon, 1994; Malhotra et al., 1996; Yin, 1994) was developed through a number of iterations by the authors and reflects the issues raised through the RBV literature generally and in relation to the key resources of the firm in particular.

As noted by Rouse and Daellenbach (1999) qualitative approaches are more appropriate to the exploration of individual firms with unique resources when isolating and examining the impact of these resources on SCA. As the high level of inimitability of the intangible assets and capabilities is the key to the ability of high performing firms sustaining their CA, generalisability as a goal of research in this area is meaningless. Ethnographic study methods provide further insight in a case by case approach. The study by Day and Nedungadi (1994) provides rationale and examples using a single informant for data of this nature. The proposed interview schedule and supporting rationale, if used with case examples of consistently high performing firms from within or between different sectors, would illuminate our understanding of the influence of key resources, as a first stage in fully operationalising Fahy’s model.
Figure 3: Interview Schedule and Rationale

<table>
<thead>
<tr>
<th>Issue</th>
<th>Question</th>
<th>Rationale</th>
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<tr>
<td>Tangible assets</td>
<td>How would you rate the importance of tangible assets compared with intangible assets and capabilities?</td>
<td>As intangible assets are more likely to be inimitable, causally ambiguous and inappropriable by others than are tangible assets, differences between the categories of resources which potentially confer a SCA need to be identified.</td>
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<tr>
<td>Intangible assets</td>
<td>How would you describe the intangible assets that you see as peculiar to your firm?</td>
<td>This question asks the manager to identify the relevant intangible assets and to value them from the firm’s perspective for comparative purposes.</td>
</tr>
<tr>
<td>Capabilities</td>
<td>How would you describe the value attached to the firms’ capabilities that you have identified?</td>
<td>This question is designed to provide the firm’s assessment of the value of capabilities that may then be compared with the items listed in Figure 2.</td>
</tr>
<tr>
<td>Managerial skill</td>
<td>How critical is the managerial process of the firm to developing and deploying these intangible assets and capabilities?</td>
<td>The essential role of management in developing and deploying key resources is tested via the ability of the interviewee to identify and qualitatively assess the value of key resources.</td>
</tr>
<tr>
<td>Barriers to duplication</td>
<td>To what extent are your key resources able to be duplicated by rivals?</td>
<td>This question is designed to provide the manager’s assessment of competitors’ ability to identify the causes of its advantage.</td>
</tr>
<tr>
<td>Key resources</td>
<td>To what extent is the value of key resources at the firm located with individuals/ teams versus the firm as a whole?</td>
<td>One of the characteristics that Fahy (and others) assigned to advantage-generating resources was ‘appropriability’. This recognises there are rival claimants to the value generated by key resources and the firm must appropriate sufficient of the resource value to sustain an advantage.</td>
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Conclusions and Future Directions

The review of literature related to the RBV leads us to believe that developments in the theoretical constructs that underpin the view offer an opportunity for marketing strategists to undertake a range of empirical studies that will involve a close examination of individual firms and their unique clusters of resources. Our view supports that of Rouse and Daellenbach (1999), that qualitative methodologies will be more appropriate for work undertaken within organisations, since “…the research methodologies traditionally used in strategy research will not unambiguously uncover these sources of sustainable competitive advantage” p.1. The interview schedule proposed provides an example of a research strategy that would be suitable as a vehicle by which to discuss, probe and uncover the impact of the firm’s identification, development, deployment and protection of its key intangible assets and capabilities in achieving a SCA. Further development of a battery of approaches is needed for closer examination of the unique resources of cases of individual, high performing firms within and between industry sectors to provide further insight into the components of Fahy’s model.
References


