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Competing on Resources to Achieve Competitive Advantage: Lessons from RBV Perspective

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Abstract –

Strategic Management encompasses a wide range of ideas and actions that are subject to scholarly investigation. But it is important to note that the scientific knowledge inquiry approach to strategic management is still in a state of ongoing development. The acquisition and utilization of resources play a pivotal role in the prosperity of a business, enabling it to attain a competitive edge. The Resource-Based View (RBV) or Perspective is considered a foundational perspective within the field of Strategic Management, as evidenced by its prevalence in scholarly literature. Hence, it is advisable for strategists to redirect their focus from the establishment of market power to the utilization of available resources.

Key Words: Resources, Dynamic Capabilities, Value, Competitive Advantage

Introduction

From Business Policy towards Strategic Management

The transition from the discipline of "Business Policy" to "Strategic Management" marks a significant shift in focus and approach within the realm of business studies.The academic discipline known as Business Policy, as evidenced by the works of Andrews (1971) and Ansoff (1965), emerged in the 1960s and maintained its significance until the 1970s, when it was subsequently superseded by the field of Strategic Management, as exemplified by Schendel and Hofer's publication on Strategic Management in 1979.

Despite the incorporation of several ideas and techniques in the area of Strategic Management, the scientific knowledge inquiry approach to strategic management continues to develop (Dagnino, 2005).The area of strategic management has experienced advancements in both theoretical status and empirical complexity because of the changing dynamics in the business environment (Dagnino, 2012).

The RCP (Resource-competence-performance) paradigm places greater emphasis on examining a firm's resources which are internal to the firm rather than external factors. According to the Resource-Based View (RBV) paradigm, the competitive advantage and core competences of a corporation are not solely determined by external forces. Instead,they are the internal resources and available technology that provide synergy and facilitate the emergence of CA and core competencies.

Objectives:

1. To analyze and evaluate the significance of the Resource Based View (RBV) Perspective in the discipline of strategic management.

2. To explore Dynamic Capabilities and its significance within context of a rapidly evolving business environment.

Resource Based View

The resource-based view (RBV) is a theoretical framework that lays emphasis on internal resources and capabilities as the primary drivers of its competitive advantage. The Resource-Based View (RBV) is often regarded as the predominant paradigm in the discipline of strategic management. This method facilitates the assessment of a organizations resources by strategists, ultimately contributing to the accomplishment of competitive advantage.

The acquisition and utilization of resources play a pivotal role in the prosperity of a business, enabling it to attain a competitive edge. The resource-based view/perspective is considered a foundational perspective and is evident in the scholarly literature of the field of Strategic Management. Several theories and principles of strategic management have been formulated based on the Resource-Based View (RBV). The Resource-Based View (RBV) Model posits that organizations can be conceptualized as a combination of observable and unobservable elements, which frequently serve as the foundations for achieving a competitive advantage. Therefore, it is important for corporate promoters to often redirect their focus from market power development to resource use (Whittington, 1993).

Concept of resources is characterized by its extensive scope and inherent ambiguity (Lockett et al., 2008). The resources of organization can be categorized into three distinct groups: physical capital resources (Williamson, 1975), human capital resources (Becker, 1964), and organizational capital resources (Tomer, 1987). Physical capital resources encompass various assets such as plants, machinery, and technological equipment. Human capital resources encompass skills, expertise, knowledge, and judgment. Organizational capital resources encompass elements like organizational structure, authority-responsibility relationships, and formal and informal organization. Not all components of physical capital, human capital, and organizational capital resources possess strategic significance. Barney (1986) posits that certain resources have the potential to impede the successful execution of valuable tactics. Certain qualities of physical capital, human capital, and organizational capital resources have the ability to contribute to the effective execution of successful strategies. According to Wernerfelt (1984),

Resources can also categorized be into two distinct classifications, namely "resources" and "capabilities". The term "resources" refers to the factors of production that are owned and controlled by a firm. The firm's capabilities, pertains to its efficiency in effectively utilizing these resources.

Priem and Butler contend that the assertion made by Barney (1991) regarding the relationship between the value and rarity of a resource and its potential to serve as a competitive advantage holds true under the condition that the definitions of 'valuable' and 'competitive advantage' align. Barney (1991) is widely acknowledged as the initial scholar to disseminate the potential rationales regarding the Resource-Based View (RBV) (Newbert, 2008). Barney employs the concept of Strategic Resource and use a specific terminology known as VRIN characteristics (valuable, rare, inimitable, and non-substitutable) to refer to the same.Not all resources are capable of contributing to the achievement of a Competitive Advantage. According to Barney (1991), for resources to confer a competitive advantage, they must possess specific distinguishing traits.

Furthermore, the misuse of VRIN resources and the ineptitude of ineffective managers in resource management would lead to the absence of a competitive advantage.According to the study conducted by Katkalo et al. (2010).

VRIO (Value, Rare, Inimitable, Organization)

While VRIN, as proposed by Barney, places attention on the resource level, VRIO shifts the focus of analysis onto the usefulness of the resources. Nevertheless, the primary focus of analysis remains on the resource. The acronym VRIO, as proposed by Barney in 1997, represents the attributes of precious, rare, inimitable resources, and organization.

The concept of VRIO, which stands for Value, Rare, Inimitable, Organization, is a framework used in strategic management to comprehend the competitive advantage of a firm. In this context, the term "value" refers to the capability of a firm's resources or capabilities to contribute to Competitive Advantage

Value

The proposition of value holds paramount significance inside the VRIO framework. The efficacy of a resource is believed to lie in its ability to facilitate the development of value-generating strategies, hence leading to the attainment of

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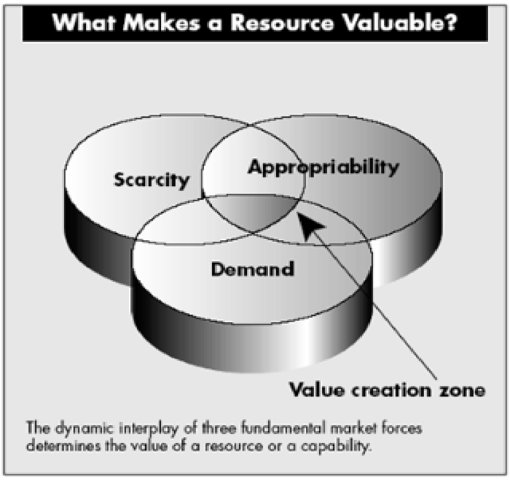
a competitive advantage. According to Barney (1991), the creation of value by any organizational resource is contingent upon its ability to exploit environmental opportunities and mitigate dangers.

The dynamic interplay of three fundamental market forces determines the value of a resource or a capability.



Source: *Harvard Business Review "Competing on Resources: Strategy in the 1990s" David Collis and Cynthia A. Montgomery*

Scarcity is a principle determinant of value or worth of a given resource. Organizations should strategically pursue the acquisition of limited resources or endeavor to create artificial scarcity of these resources. The appropriability factor is the second significant predictor of value. It is essential for resources to be suitable and proportional to the requirements of the strategy. The third factor of value pertains to the demand for resources. Value of a resource increases as there is an increased demand for it in market.

Rarity

The attribute of rarity holds significant importance inside the VRIO framework. If other organizations also own the same valuable resource, it is feasible to pursue a similar value-creating approach. Therefore, the objective of achieving a competitive edge shall not be fulfilled. For achieving success, organizations must strive to cultivate a reservoir of distinct resources that are not easily available to their competitors. The possession of a scarce resource confers a unique advantage upon the organization.

Inimitability

The concept of inimitability refers to the quality or characteristic of being impossible to imitate. This attribute serves as the core element in the process of generating value. If a firm's resources are not replicable, it will consistently generate profits. However, as time progresses, rival companies are able to replicate the necessary resources, hence posing challenges for the firm to withstand competitive pressures.

Organization

The concept of organization refers to the systematic arrangement and structuring of elements or components.This part of organization encompasses the link between power and accountability, through which a corporation operates, performs, and executes its plans and policies. The competencies possessed by employees, including their expertise, confidence, and the caliber of the human resources, play a crucial role in differentiating one firm from another.

The four essential components of VRIO, namely value, rarity, inimitability, and organization, serve as the foundation for attaining a competitive advantage. According to the works of Collis and Montgomery (1995), Grant (1991), and Wernerfelt (1984), it can be observed that... Resources that hold significant worth are commonly referred to as strategic assets (Barney, 1991; Amit & Schoemaker, 1993).According to Barney (year), the competitive advantage is derived from the control and ownership of strategic resources. As previously mentioned, the incorporation of the four aspects of VRIO framework contributes to the attainment of a competitive advantage. However, in order to maintain or attain a competitive advantage that endures, it is imperative for the organization to guarantee that the following three requirements are met.

1 . Is the resource possessed by the corporation valuable?

2. The distribution is characterized by heterogeneity.

3. Imperfect mobility.

A resource is considered valuable when a corporation demonstrates greater performance in comparison to its competitors. The acquisition of valuable resources is a key determinant of attaining a competitive advantage. For a firm to achieve long-term competitive advantage, it is imperative to guarantee that resources are distributed heterogeneously among firms (Barney, 1991).The concept of resource heterogeneity suggests the presence of superior resources that are constrained by scarcity. The superior resources contribute to lower average cost. Resources of superior quality exhibit an inelastic supply. Elevated price levels serve as a catalyst for the entry of additional competing enterprises into the industry. Firms persist in entering the market as long as the prevailing price exceeds the marginal cost. Based on the data presented in Figure 1, it can be observed that enterprises with high costs reach the break-even point, but firms with low costs generate supernormal profits. The maintenance of a competitive advantage over an extended period of time is facilitated by a consistent and ongoing generation of profits.

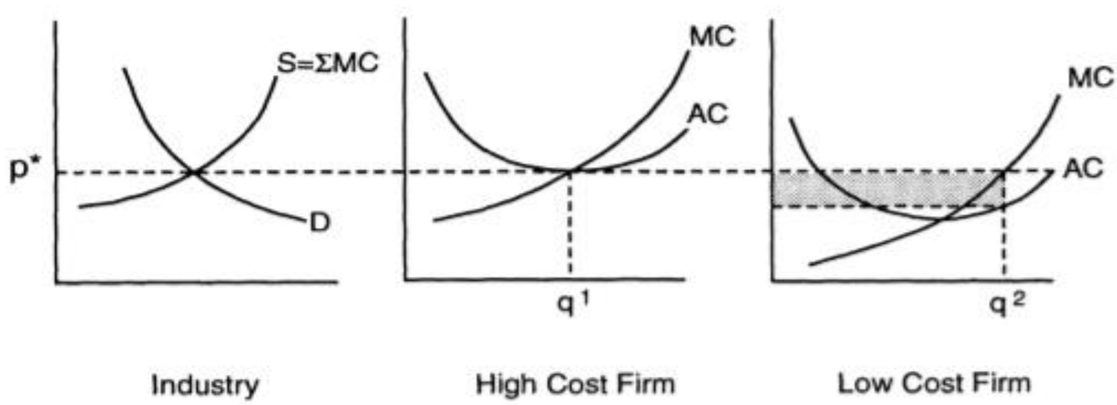


Figure 1. Scarcity rents with heterogeneous factors
Key: P* = Equilibrium Price, ▨ = Rents to Efficient Producer

Source - *Strategic Management Journal.*

Dierickx and Cool (1989) suggest that perfect immobility of resources refers to the condition wherein resources are incapable of being exchanged or transferred. According to Williamson (1979), resources that possess distinctive characteristics and lack utility beyond certain contexts might be classified as exhibiting imperfect mobility.

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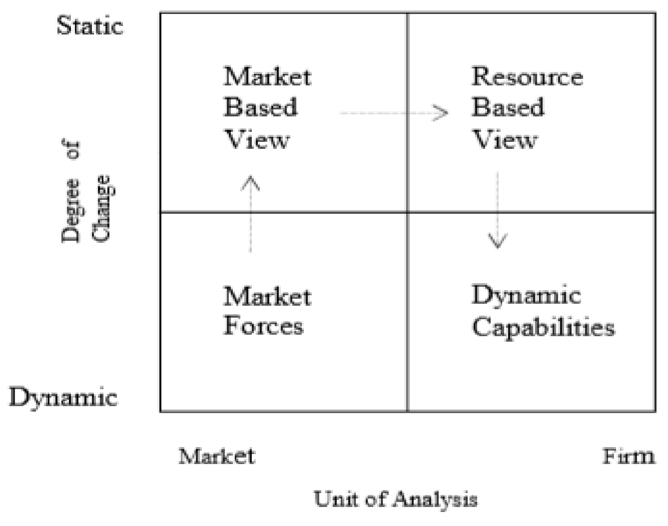
The attainment of a persistent competitive advantage is realized when the aforementioned three characteristics are met or fulfilled. Barney argues that the persistent competitive advantage is not indefinitely sustainable. This implies that the advantage in question will pose a significant challenge for competitors attempting to replicate, hence potentially resulting in its sustained longevity.

The contemporary business environment undergoes frequent and rapid transformations. Consequently, significant alterations in any of its components can result in what Rumelt and Wensley (1981) and Barney (1997) refer to as "Schumpeterian Shocks."Therefore, a company that maintains a consistent competitive advantage must also proactively anticipate the quick changes occurring in the business environment; otherwise, the advantages gained by the company would become ineffective.

The concept of dynamic capacities and its associated ramifications.

As previously said, the markets and the corporate environment are subject to continuous fluctuations. Therefore, for attaining and maintaining a sustainable competitive advantage, it is essential for the firm to align its strategy, routines, functions, and resources with the evolving market dynamics. Process of cultivating and formulating abilities in this manner is commonly referred to as dynamic capabilities (Eisenhardt & Martin, 2000).Capability, in essence, is referred the level of efficiency exhibited by a corporation in effectively utilizing its available resources.

The Resource-Based View (RBV) paradigm is characterized by its static nature, as it focuses on the internal resources and capabilities of an organization. In contrast, the market conditions in which the firm works are dynamic in nature, always changing and evolving. The concept of dynamic capacities emerges from the Resource-Based View (RBV), which emphasizes the need to enhance resources and capabilities in response to shifts in market conditions (Teece, Pisano, & Shuen, 1997).



(Source: Model Developed by Author)

Fig. 1: Characteristics of RBV, MBV and Dynamic Capabilities

Source: *Indian Management Research Journal, Vol. 1, No 2, May- August 2009*

The figure explains that both the Market Based View and RBV possess static characteristics. When the market is used as the unit of study, the concepts of market-based view and market forces are taken into consideration. However, when the firm is regarded as the unit of analysis, the RBV and Dynamic Capabilities frameworks are taken into consideration. The Market Based View framework incorporates an analysis of market forces. In response to market dynamics, there has been a shift in focus from Market-Based View (MBV) to Resource-Based View (RBV), as RBV emphasizes the significance of resources in attaining a competitive advantage. Dynamic capabilities refer to the set of procedures, processes, and functions that are implemented by an organization in order to enhance the adaptability of its resources to changing market conditions.

The dynamic nature of the Business Environment has resulted in rapid changes. The Business Environment encompasses both Micro and Macro Components. While the components of the Micro Environment exert a direct influence on business operations, the components of the Macro Environment have an indirect impact on operations of the Firm. But it important to note that the influence of Macro Environment elements can have a lasting effect on the firm. The macro environment encompasses several key components, namely the economic, social, political and legal, demographic, and technological factors. Any alterations in any constituent of the Macro Environment present a significant obstacle to the organization. Technological improvements present significant hurdles for organizations, since those who fail to anticipate and adapt their operations may encounter the predicament of negative cash flow. The role of capabilities is of great significance, since they enable organizations to adapt, reconfigure, and align their resources in response to changes occurring in the business environment.

Conclusion

The initial step for the Strategists entails conducting a thorough and all-encompassing assessment of the resources considering the Resource Based View of the organisations. Organizations that encounter strategic disadvantages should undertake an analysis and identification of valuable resources in order to attain a competitive edge.

There are four key elements that define the significance of a resource, namely value, rarity, inimitability, and organization. The formulation of effective plans is hindered by strategists' limited awareness of the factors they utilize. The Resource-Based View (RBV) approach holds significance as it enables strategists to involve in a thorough analysis of valuable resources. Given the evolving nature of the business environment and the dynamic market conditions, it is imperative to take into account dynamic capabilities as an extension of the Resource-Based View (RBV).

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