*Strategic Management*, 9e: Chapter 4 study guide

Summary of the reasons for the development of the Resource-Based View (RBV)

It was only in the 1980s that strategic management began to focus more on the competitive advantages of the individual firm and less on the strategic market. The study of the firm’s competitive advantages is called the Resource-Based View (RBV) of the firm.

**Exhibit 2 Some selected research contributions to the development of the RBV[[1]](#endnote-1)**

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| **Author(s)** | **Date** | **Summary** |
| Wernerfelt | 1984 | Companies were seen as a collection of resources, rather than holding market positions in the development of strategy. |
| Barney | 1986, 1991 | Competitive market imperfections, market entry barriers and other constraints require differing company resources and the immobility of resources for the development of successful strategy |
| Rumelt | 1987 | Importance of resources in strategy development |
| Dierickx and Cool | 1989 | Strategic assets are developed internally, not acquired. Such assets take time to develop. |
| Schoemaker | 1990 | Identified factors important in determining useful assets. Some assets not readily tradable for reasons of specialist skills, know-how and reputation. |
| Prahalad and Hamel | 1990 | Key resources: skills and technologies called core competencies – *see* text |
| Peteraf | 1990 | Identified four distinguishing features of resources |
| Grant | 1991 | Definition of resources, capabilities and competitive advantage |
| Connor | 1991 | Resources long-lived, difficult to imitate |
| Amit and Schoemaker | 1993 | Explored processes through which resources are developed, e.g. bounded rationality |
| Kay | 1994 | Identified the three most important resources as the firm’s ability to innovate, its reputation and its network of relationships inside and outside (architecture) – *see* text |
| Teece, Pisano and Shuen | 1997 | Explored the changing nature of resources |
| Makadok | 2001 | Examined resource-based and dynamic capabilities with a view to developing a synthesis |
| Hoopes, Madsen and Walker | 2003 | Special edition of *Strategic Management Journal* on the RBV – 13 papers on the topic |
| Misangyi *et al.* | 2006 | Suggested that the business segment was most significant but that industry and corporate environments also deserve consideration |
| Newbert | 2007 | Surveyed empirical studies of the RBV and found that the RBV received ‘only modest support overall’ but that this may reflect data from some of the early RBV studies, which do not take into account the latest theory about the dynamics of the RBV |

During the 1980s, strategists like Porter explored and emphasised the need to identify profit-able markets and then find competitive advantage by industry solutions in those markets – for example, his ‘generic strategies’ are explored in Chapter 8. Even while these developments were receiving strong approval from some commentators, disturbing evidence was pointing in a different direction. For example, Rumelt[[2]](#endnote-2) published a study in 1991 of the sources of profits in major US corporations in the 1970s. This suggested that the greatest contributor to overall company profitability was at the *individual company level* rather than at the higher, corporate level or at the level of the industry overall or the cyclicality of the industry. The results are shown below. For this North American sample, they indicate that what matters is the individual business area rather than the industry. Whether this finding is true for other countries and industry samples cannot easily be established. But it did suggest that industry solutions to resources are unlikely to be the main source of profits, thus undermining the Porter approach. In fairness to Porter, he produced similar evidence himself (with McGahan) in research published in 1997.[[3]](#endnote-3) However, Porter’s research suggested that the company effect was not quite as large as that found by Rumelt, possibly because Porter used a sample that included service industries as well as manufacturing. Later scholars have taken such studies further and concluded that *individual company resources* are more important than the industry effect but that the situation is more complex than these early studies.[[4]](#endnote-4) Essentially, what also matters is organisation’s capability to organise *dynamic renewal* of its resources that really delivers competitive advantage. We explore this in Chapter 5.

Around the same time, other strategists were puzzled by the different long-term profit performance of companies in the same industry. They argued that, if industry was the main determinant of profits, then all companies in an industry should have similar levels of profitability. But this clearly was not the case. For example, Toyota (Japan) and Honda (Japan) made massive strides worldwide in the car industry, often at the expense of General Motors (USA) and Ford (USA), who were losing profits, even in their home markets. Why did this happen? Industry analysis was certainly not wrong: it was needed to identify sustainable competitive advantage and customer needs. But it was clearly not enough.

**Table 1: Contributions to the variance of profitability across business units**

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| --- | --- |
| **Source within corporation** | **Contribution to the total profitability of the corporation** |
| Corporate ownership | 0.8% |
| Industry effects | 8.3% |
| Cyclical effects | 7.8% |
| Business unit specific effects | 46.4% |
| Unexplained factors | 36.7% |
| Total across corporation | 100% |

*Source*: See reference.[[5]](#endnote-5)

1. See also the special edition of the Strategic Management Journal, 24, October 2003 which has an extended discussion and review of the concept. [↑](#endnote-ref-1)
2. Rumelt, R (1991) ‘How much does industry matter?’, Strategic Management Journal, March, pp64–75. [↑](#endnote-ref-2)
3. Rumelt, R (1991) Op. cit. [↑](#endnote-ref-3)
4. McGahan, A and Porter, M E (1997) ‘How much does industry matter, really?’ Strategic Management Journal, 18, Summer special issue, pp15–30. [↑](#endnote-ref-4)
5. See, for example, Newbert, S L (2007) ‘Empirical research on the resource-based view of the firm: an assessment and suggestions for future research’, Strategic Management Journal, Vol 28, pp121–146. See also Misagnyi, V F, Elms, H, Greckhamer, T and Lepine, J A (2006) ‘A new perspective on a fundamental debate: a multilevel approach to industry, corporate and business unit effects’, Strategic Management Journal, Vol 27, pp571–590. [↑](#endnote-ref-5)