

# Strategic Marketing and the Resource Based View of the Firm

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## EXECUTIVE SUMMARY

The resource-based view of the firm (RBV) is one of the latest strategic management concepts to be enthusiastically embraced by marketing scholars. This paper argues that the RBV holds much promise as a framework for understanding strategic marketing issues but cautions that, before it is adopted, it needs to be fully understood. Consequently, the paper charts the development of the RBV from its origins in early economic models of imperfect competition, through the work of evolutionary economists to the contributions of strategy and marketing scholars over the past two decades. This broad literature base has given rise to a great deal of ambiguity, inconsistent use of nomenclature and several overlapping classification schema. The paper seeks to draw together common themes of firm heterogeneity, barriers to duplication, sustainable competitive advantage and Ricardian rents within an overall model of resource-based competitive advantage.

The second part of the paper describes three aspects of strategic marketing likely to benefit from adoption of the resource-based perspective, namely, strategic analysis, positioning and international marketing strategy. In terms of the former, it is argued that the RBV helps to overcome some of the frequently cited problems of the SWOT framework. Similarly, it contends that understanding a firm's resource-base is central to effective positioning while applications in the area of international marketing highlight important differences between firm-specific and country-specific resources. The paper concludes by noting some important conceptual and methodological issues that need to be addressed by future research adopting the RBV perspective.

## Strategic Marketing and the Resource Based View of the Firm

Discourse in the field of strategic marketing has drawn heavily on ideas and concepts from strategic management. As both fields of study are concerned with issues affecting the relationship between the organisation and its environment, strategic management provides a context for the marketing process (Brownlie 1989). And it has also provided several frameworks and conceptual tools ranging from the industry analysis techniques popularised by Porter (1980) to the popular portfolio matrices which were developed by US management consulting firms. Of course, the direction of influence has been by no means one way. The customer-focused philosophy of marketing and concepts such as segmentation, positioning and the product-life cycle have also influenced thinking in strategic management (Biggadike 1981; Day 1992; Schendel 1985). One of the latest concepts in strategic management that is beginning to be enthusiastically greeted by marketers is the resource-based view of the firm (RBV). The RBV, which builds on some earlier work of industrial economists, has been growing in popularity in the strategy literature since the mid-1980s. Its influence in recent marketing contributions can be seen, for example, in Day's (1994) work on marketing capabilities and in the work of Hunt and Morgan (1995; 1996) on competitive advantage. More recently, it has been explicitly adopted as a framework for analysing performance in international markets (Hooley et al 1996) and for describing dimensions of positioning strategy (Hooley, Moller and Broderick 1998). Given its focus on the nature of the firm and its appeal as a theory of competitive advantage, the likelihood is that "resource-based" perspectives will become increasingly popular in the field of strategic marketing in the years ahead. However, when concepts are borrowed there is always the risk that something "gets lost in the translation". For example, Hooley, Moller and Broderick (1998) criticise the resource-based view for its inward focus which risks ignoring the nature of market demand, though other contributions in the strategy literature highlight the links between internal resources and market conditions (Amit and Schoemaker 1993; Collis and Montgomery 1995). Before any new perspective is enthusiastically adopted, it first needs to be fully understood.

This paper has two main purposes. First, it aims to provide an integrated review of the origins, insights and status of the resource-based view of the firm. As Collis (1991) notes, no coherent body of theory has as yet emerged to summarise the resource-based view leading to the possibility of a number of false starts in its adoption by marketing researchers. The following section of the paper describes the historical background of the RBV and how it has developed within strategic management. As with any growing body of literature, there is some ambiguity and inconsistency in the use of terminology and this is highlighted in a discussion on the principal insights of the RBV into the nature of competitive advantage. Second, the paper identifies and describes a number of potential applications of the RBV in the field of strategic marketing. In addition, the RBV perspective has recently received some criticism in the literature (Deligonul and Cavusgil 1997; Godfrey and Hill 1995) and these critiques are noted in the context of conceptual and empirical questions that must be addressed by future research.

### THE DEVELOPMENT OF THE RESOURCE-BASED VIEW

Over the past decade or so, there have been a large and diverse collection of contributions in the areas of economics and strategic management that seek to either refine the concept of the RBV or uses it as a framework for tackling conceptual and empirical questions. Consequently, the basic propositions of the RBV have become increasingly well delineated. In short, the principal contribution of the resource-based view of the firm to date has been as a theory of competitive advantage. Its basic logic is a relatively simple one. It starts with the assumption that the desired outcome of managerial effort within the firm is a sustainable competitive advantage (SCA). Achieving a SCA allows the firm to earn economic rents or above-average returns. In turn, this focuses attention on how firms achieve and sustain advantages. The resource-based view contends that the answer to this question lies in the possession of certain key resources, that is, resources that have characteristics such as value, barriers to duplication and appropriability. A SCA can be obtained if the firm effectively deploys these resources in its product-markets. Therefore, the RBV emphasises strategic choice, charging the firm's management with the important tasks of identifying, developing and deploying key resources to maximise returns. We will look at these elements of the RBV in greater detail later, but it is important at this stage to take cognisance of where the concept has originated from and how it has developed.

Until the late 1980s, the resource-based view was characterised by a rather fragmented process of development. The earliest acknowledgement of the potential importance of firm-specific resources is to be found in the work of economists such as Chamberlin and Robinson in the 1930s (Chamberlin 1933; Robinson 1933) which was subsequently developed by Penrose (1959). Rather than emphasise market structures, these economists highlighted firm heterogeneity and proposed that the unique assets and capabilities of firms were important factors giving rise to imperfect competition and the attainment of super-normal profits. For example, Chamberlin (1933) identified that some of the key capabilities of firms included technical know-how, reputation, brand awareness, the ability of managers to work together and particularly, patents and trademarks, many of which have been revisited in the recent strategy and marketing literature (Day 1994; Hall 1992).

Edith Penrose's much cited work on the theory of the growth of the firm (Penrose 1959) provides arguably the most detailed exposition of a resource-based view in the economics literature. She notes that,

a firm is more than an administrative unit; it is also a collection of productive resources the disposal of which between different users and over time is determined by administrative decision. When we regard the function of the private business firm from this point of view, the size of the firm is best gauged by some measure of the productive resources it employs (Penrose 1959, pp. 24).

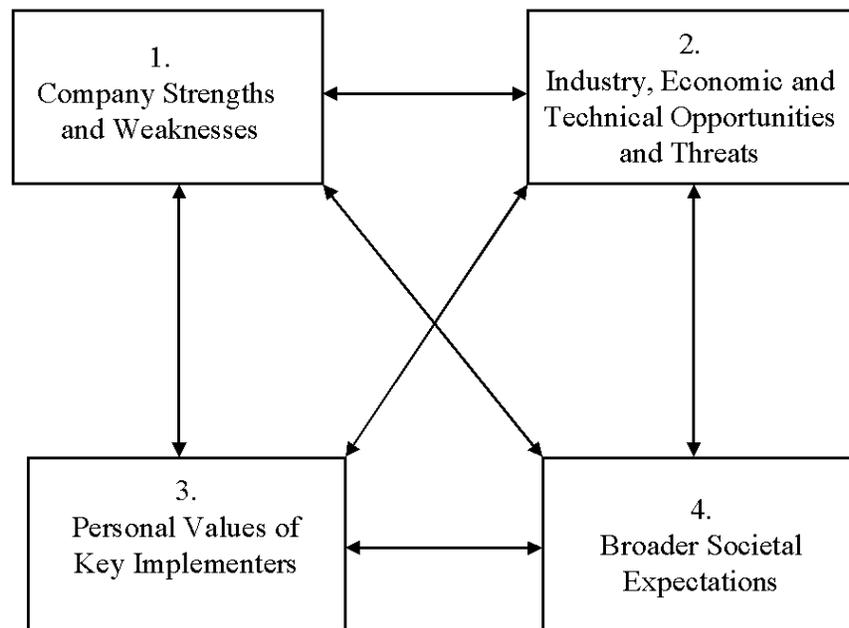
The above quotation highlights important dimensions of the resource-based view that have occupied the minds of theorists over the past decade, namely, the role of managers in the development and deployment of resources (Amit and Schoemaker 1993; Barney 1986, Barney and Zajac 1994, Lei, Hitt and Bettis 1996; Schoemaker 1992) and the relationship between resources and the scope of the firm (Chatterjee and Wernerfelt 1991; Markides and Williamson 1996; Prahalad and Hamel 1990; Robins and Wiersema 1995). Penrose's work also provides other penetrating insights into the nature and role of resources in the firm. For example she distinguishes resources from services, arguing that it is never resources themselves that are inputs into the production process but rather it is the services that these resources can render. In other words, services yielded by resources are a function of the way in which the resources are used, in that exactly the same resource when used for different purposes or in different ways or in combination with other resources provides a different service or set of services. Penrose (1959) sees this distinction as the source of uniqueness of each individual firm and it is a distinction that has many parallels with the separation of resources and capabilities that characterises much of the strategy literature (See for example, Hill and Jones 1998). Similarly, she argues that 'internal' resource configurations both facilitate and constrain the direction of expansion of the firm and contrasts this with the prevailing external inducements to expand such as growing demand and changes in technology, etc. She argues that the firm's expansion is influenced by its own previously acquired or inherited resources and those it must obtain from the market in order to carry out its production and expansion programmes.

However, Penrose's work remained something of a lone voice in the economics literature and was seen along with other contributions as 'fighting against a strong tide in economics, particularly in theoretical economics that downplays or even denies the importance of (firm) differences' (Nelson 1991). Indeed a comprehensive review of the relationships between the RBV and extant branches of organisational economics such as neo-classical perfect competition, Bain-Mason IO, Schumpeterian competition, The Chicago school and transaction cost economics by Conner (1991) found much more in the way of differences than similarities with these bodies of work. One notable exception is evolutionary economics, popularised by Nelson and Winter (1982), which married the concepts of tacit knowledge and routines to the dynamics of Schumpeterian competition (Rumelt, Schendel and Teece 1991). Nelson and Winter (1982) proposed that firms could be understood in terms of a hierarchy of practiced organisational routines which define lower order organisational skills and higher order decision procedures for choosing what is to be done at lower levels. The absence of either lower order routines or the higher order routines for invoking them constrains the organisation's capacity to innovate. Nelson (1991) argues that strategy, structure and core capabilities represent discretionary firm differences that do matter and ought to be recognised explicitly by economists.

Similarly, firm differences were at the heart of much of the early work in the business policy which later matured into the field of strategic management. Early models of strategic decision making typically propose a rational process of setting objectives, followed by an internal appraisal of capabilities, an external appraisal of outside opportunities leading to decisions to expand or diversify based on the level of fit between existing products/capabilities and investment prospects (Ansoff 1965). A more complete illustration of the issue of fit is to be found in the LCAG framework (Andrews 1971;

Learned et al 1969) emerging from Harvard in the late 1960s. It extended earlier work to incorporate not only the firm's strengths/weaknesses and the opportunities/threats in the environment but also the personal values of key implementers and broader social expectations, all four of which were interrelated (See Figure 1). Over time, particular elements of the LCAG framework have come to be emphasised. For example, in the early 1980s, the work of Porter (1980) which was grounded in Bain/Mason Industrial Organisation (IO) emphasised the industry quadrant of Figure 1 (quadrant two). Porter (1980) re-worked the traditional structure-conduct-performance paradigm to show that, while industry structure as measured by his five forces model meant some industries were inherently more profitable than others, firms could optimise performance by how they positioned themselves viz. a viz. these forces.

**FIGURE 1**  
**The Learned, Christensen, Andrews and Guth (LCAG) Framework (1969)**



The resource-based view of the firm was first coined by Birger Wernerfelt in 1984 and a hint of the richness that lay in the approach is evident in his description of the article as a "first cut at a huge can of worms" (Wernerfelt 1984). However, the concept remained dormant for much of the 1980s. Then towards the latter part of the decade increasing dissatisfaction with the Porterian focus on industry structure was becoming apparent. Empirical research examining performance found differences, not only between firms in the same industry (Cubbin 1988; Hansen and Wernerfelt 1989) but also within the narrower confines of strategic groups within industries (Cool and Schendel 1988; Lewis and Thomas 1990). This resulted in increased interest in firm-specific variables and the number of contributions claiming to adopt a "resource-based perspective" mushroomed. A burgeoning management literature highlighted examples and cases of where companies with particular skills and capabilities were able to out-perform their rivals (Coyne 1986; Ghemawat 1986; Grant 1991; Hall 1989; Stalk, Evans and Schulman 1992 and Williams 1992). A number of industrial economists contributed rigorous examinations of why performance differences persisted in situations of open competition which has become one of the core insights of the resource-based view (Amit and Schoemaker 1993; Barney 1986, 1991; Dierickx and Cool 1989; Lippman and Rumelt 1982; Peteraf 1993 and Reed and DeFillippi 1990). In 1994, Wernerfelt's 1984 article was awarded the Strategic Management Journal best paper prize for reasons such as "being truly seminal" and "an early statement of an important trend in the field" (Zajac 1995) indicating that the resource-based view, with its cogent mix of economic rigor and management reality, had assumed centre stage in the strategic management literature.

Before going on to examine the insights of the resource-based view in more detail it is important to note its origins and assumptions. It is firmly grounded in early economic models of monopolistic competition (Chamberlin 1933) and its focus on firm heterogeneity departs from neo-classical microeconomics and Bain/Mason Industrial Organisation which characterise the behaviour of the representative firm (Hill and Deeds 1996). Its relationships and similarities with other branches of industrial economics have been well documented (Conner 1991; Mahoney and Pandian 1992). This economics base helps to explain its potential appeal to marketers as marketing itself has borrowed more heavily from economic theory than from any other discipline (Bartels 1988). But it means that on the issue of exchanges between the firm and its environment, it places primary emphasis on economic as opposed to social or political exchanges with an emphasis on rationality and view organisational actors as rational beings assessing choices and making decisions which maximise their self interests. However, some economists have noted the limits of rationality. For example, Penrose (1959) notes the importance of the inherent characteristics of individuals and the relationships between these individuals while Nelson (1991) argues that it is nonsense to presume that a firm can calculate an actual 'best' strategy. Nevertheless, the resource-based view may have less appeal to scholars from the psychological and sociological traditions in marketing. Equally, though the potential benefits of integration with these traditions should not be ignored as is demonstrated by recent contributions that combines institutional theory and the resource-based view in an analysis of sustainable competitive advantage (Oliver 1997; Rao 1994).

### THE RESOURCE-BASED VIEW AND COMPETITIVE ADVANTAGE

The pursuit of Sustainable Competitive Advantage<sup>1</sup> is an idea that is at the heart of much of the strategic management and marketing literature [See for example, Coyne (1986), Day and Wensley (1988), Ghemawat (1986), Porter (1985) and Williams (1992)]. Gaining a competitive advantage through the provision of greater value to customers can be expected to lead to superior performance measured in conventional terms such as market-based performance (e.g., market share, customer satisfaction) and financial-based performance (e.g., return on investment, shareholder wealth creation; Bharadwaj, Varadarajan and Fahy 1993; Hunt and Morgan 1995). Research by Buzzell and Gale (1987), Jacobsen (1988) and Jacobsen and Aaker (1985) has argued that market-share and profitability are both outcomes of the efforts by firms secure cost and differentiation advantages. Extant marketing literature emphasises a link between the delivery of value to customers and levels of customer satisfaction leading to potential market share and profitability gains (Kotler 1994). Where

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<sup>1</sup> Clear definitions of the concept of SCA are rare and competitive advantage is often used interchangeably with concepts like distinctive competence (Day and Wensley 1988). Understanding competitive advantage requires an analysis of its constituent elements. Advantage is a relative concept (Hu 1995; Kay 1993) only meaningful when compared to another entity or set of entities. A competitive advantage then, is an advantage one firm has over a competitor or group of competitors in a given market, strategic group or industry (Kay 1993). Any given firm may have many advantages over another firm such as a superior production system, a lower level of wages and salaries or an ability to deliver superior customer service but the important advantages are those in which customers place some level of value (Coyne 1986). Therefore, the locus of advantage is in the marketplace and positions of advantage are generally regarded as being either differentiation or lower delivered cost (Porter 1985) or both (Gilbert and Strebel 1991). More than one firm in a given market can have a competitive advantage. For example, firm A can have an advantage over B but firm B can also have an advantage over firm C (Kay 1993).

Also of interest to researchers is the question of whether advantages are sustainable. The terms sustained advantage (Barney 1991) and sustainable advantage (Grant 1991) both appear in the literature, but both can be interpreted in the same way. Sustainability does not refer to a particular period of calendar time nor does it imply that advantages persist indefinitely (Gunther McGrath, MacMillan and Venkataraman 1995) but rather depends on the possibility and extent of competitive duplication. Industries such as financial services are typically cited as examples of where sustainable advantages are difficult to attain and competitive moves are rapidly imitated (Bhide 1986). The attainment of a SCA can be expected to lead to superior performance measured in conventional terms such as market-share and profitability (Bharadwaj, Varadarajan and Fahy 1993). However, the economics literature holds that, given strong competitive pressures, high rationality will prevail and such economic rents will dissipate (Schoemaker 1990). But where the resources underlying the advantage are limited or quasi-limited in supply, superior returns will persist (Peteraf 1993) focusing attention on the nature of the firm's resource pool.

the advantage is sustained, superior performance can be expected to persist in a manner analogous to the notions of super-normal profit or rent in economics.

The economics literature holds that, given strong competitive pressures, high rationality will prevail and economic rents will dissipate (Schoemaker 1990). However, two exceptions are identified, namely, monopoly rents and Ricardian rents (Peteraf 1993). Monopoly rents accrue to the deliberate restriction of output by firms facing downward sloping demand curves in industries characterised by barriers to entry, whether legal or otherwise (Peteraf 1993). As Kay (1993) puts it, 'it is possible for firms to generate persistently large returns without having a competitive advantage other than the absence of competitors', in other words, operating in non-contestable markets (Baumol, Panzer and Willig 1982). Rents also accrue in circumstances where resources are limited or quasi-limited in supply (Ricardian rents). If resources were not limited, increased production by new entrants would shift the supply curve outward forcing marginal firms to leave the market (Peteraf 1993). It is the persistence of these superior returns accruing to scarce resources that is the central concern of the resource-based view of the firm. We now turn to the question of why resources may be limited in supply.

### **The Characteristics of Advantage-Generating Resources**

The list of resources in any given firm is likely to be a long one. One of the principal insights of the resource-based view is that not all resources are of equal importance or possess the potential to be a source of sustainable competitive advantage. Much attention has focused therefore, on the characteristics of advantage-creating resources. Barney (1991) proposes that advantage-creating resources must meet four conditions, namely, value, rareness, inimitability and non-substitutability. Grant (1991) argues that levels of durability, transparency, transferability and replicability are important determinants while Collis and Montgomery (1995) suggest that they must meet five tests namely inimitability, durability, appropriability, substitutability and competitive superiority. Amit and Schoemaker (1993) go even further, producing a list of eight criteria including complementarity, scarcity, low tradability, inimitability, limited substitutability, appropriability, durability and overlap with strategic industry factors. In the interests of parsimony, these various conditions and characteristics are considered under the headings of value, barriers to duplication and appropriability.

Value to customers is an essential element of competitive advantage. Therefore, for a resource to be a potential source of competitive advantage, it must be valuable or enable the creation of value. In the words of Barney (1991), it must permit the firm to conceive of or implement strategies that improve its efficiency and effectiveness by meeting the needs of customers. This implies that though resources may meet other conditions, if they do not enable the creation of value, they are not a potential source of advantage. It also indicates a complementarity between the resource-based view and environmental models of competitive advantage (Barney 1991; Collis and Montgomery 1995). Given marketing's concern with customers, a potential avenue of research might involve an examination of which resources provide the most value to customers. For example, the question of whether market orientation itself is an advantage-generating resource has recently been the subject of some consideration (Hunt and Morgan 1995).

The inability of competitors to duplicate resource endowments is a central element of the resource-based view. However the discussion of barriers to duplication has been complicated by the inconsistent and at times conflicting use of terminology in the literature. Several overlapping classification schema have been proposed including asset stock accumulation (Dierickx and Cool 1989), capability gaps (Coynes 1986), capability differentials (Hall 1992; 1993), ex-post limits to competition (Peteraf 1993), isolating mechanisms (Rumelt 1984; 1987) uncertain inimitability (Lippman and Rumelt 1982) and causal ambiguity (Reed and DeFillippi 1990; See Table 1). Perhaps a useful starting point in explaining barriers to duplication is Grant's (1991) idea of transparency. The most basic problem a competitor might have is an information problem whereby the competitor is unable to identify what are the reasons behind a given firm's success. This is essential the concept of causal ambiguity (Reed and DeFillippi 1990) or uncertain imitability (Lippman and Rumelt 1982) where there is ambiguity concerning the connections between actions and results. Lippman and Rumelt (1982) suggest that uncertainty regarding which factors are responsible for superior performance explains efficiency differences between both incumbents and potential new entrants despite free entry. This uncertain imitability gives rise to rents which may even accrue to atomistic price takers, thus not arising from market power or restricted entry. Reed and DeFillippi (1990) also note that the ambiguity may be so great that not even managers within the firm understand the relationship between actions and outcomes.

**TABLE 1**  
**Alternative Classifications of Barriers to Resource Duplication**

Author	Barriers to Resource Duplication
Lippman and Rumelt (1982)	Uncertain Inimitability
Reed and DeFillippi (1990)	Complexity, Tacitness and Specificity
Rumelt (1984; 1987)*	Communication Good Effects, Economies of Scale, Information Impactedness, Producer Learning, Reputation, Response Lags
Coyne (1986)	Business System Gaps, Managerial Gaps, Position Gaps, Regulatory Gaps
Hall (1992; 1993)	Cultural Differentials, Functional Differentials, Positional Differentials, Regulatory Differentials
Dierickx and Cool (1989)	Asset Erosion, Asset Mass Efficiencies, Causal Ambiguity, Interconnectedness of Asset Stocks, Time Compression Diseconomies

\*Note that some of Rumelt's isolating mechanisms have been omitted because they are external to the firm. Advertising and channel crowding are industry conditions. Buyer evaluation costs and buyer switching costs are industry features.

In seeking to explain the causes of such ambiguity, Reed and DeFillippi (1990) shed light on the characteristics of resources which may prevent their imitation by competitors. They suggest three characteristics of resources that can simultaneously be sources of ambiguity and advantage, namely, tacitness, complexity and specificity. Tacitness is a characteristic of skill-based activities (Polanyi 1967) and refers to an inability to identify or codify a pattern of activities. Skilled activities are based on learning by doing that is accumulated through experience and refined by practice (Reed and DeFillippi 1990). It is implicit in the notions of information impactedness and producer learning (Rumelt 1987), and time compression diseconomies (Dierickx and Cool 1989). Complexity results from the interconnectedness of asset stocks (Dierickx and Cool 1989), the social relationships within the firm (Barney 1991) and from co-specialised assets (Teece 1986), that is assets which must be used in connection with one another. It resides in the large numbers of technologies, organisation routines and individual or team-based experiences that go to make up an organisation (Reed and DeFillippi 1990). It suggests that few individuals, if any, have sufficient breadth and depth of knowledge to grasp the overall performance package (Nelson and Winter 1982). This information is then immobile even though employees may be recruited by competitors. Specificity is the idea that transactions within the firm and with its external constituents are idiosyncratic to individual firms (Williamson 1975; 1985). Such transactions have a time dimension (Dierickx and Cool 1989) and this path dependence of an individual firm's activities is exceedingly difficult to identify and replicate (Barney 1991; Collis and Montgomery 1995; Dierickx and Cool 1989).

Even where resources are clearly identified and understood their imitation may be prevented through the legal system of property rights (Coyne 1986; Hall 1992, 1993). Resources such as patents, trademarks and copyrights may be protected through intellectual property laws and competitive advantages may accrue from other regulatory activities such as the granting of operating licenses (Coyne 1986). In addition, transparent resources may not be imitated due to the presence of economic deterrents (Collis and Montgomery 1995; Rumelt 1984, 1987). For example, imitation may be deterred by a pre-emptive sizable investment which, though it could be, is not replicated by a competitor due to the likelihood of the follower not receiving an adequate return on investment.

In short, resources are likely to be inimitable or imperfectly imitable where their relationship with advantage is poorly understood and/or they possess the characteristics of tacitness, complexity, specificity, regulatory protection and economic deterrence. However, it must also be impossible for a competitor to hire away a value-creating resource. In other

words, the resource must also be immobile or imperfectly mobile. Much of the literature focuses on identifying the kinds of resources that are likely to be less mobile. Grant (1991) proposes that some resources may be geographically immobile due to the costs of relocation. However, more significant barriers to mobility exist where the resources are firm-specific, where property rights are not well defined, where transaction costs are high and/or where the resources are co-specialised (Peteraf 1993). These are also the kinds of traits closely associated with inimitability. Consequently, the resource-based view of the firm places a premium on resources which are accumulated within the firm (Dierickx and Cool 1989; Peteraf 1993; Teece, Pisano and Shuen 1997) as many of these resources, subject to path dependencies possess barriers to both imitability and mobility.

Finally, once value is derived from a resource, the key question becomes who appropriates it. Value is invariably subject to a host of potential claimants such as customers, suppliers, employees, shareholders and the government (Collis and Montgomery 1995; Kay 1993). Appropriation of value becomes a particular problem where property rights are not clearly defined. While the firm may be effective in appropriating value from its physical and financial assets, it may be less so in the case of intangible assets such as brand names and copyright (Grant 1991). Of particular interest in recent years has been the appropriation of value by the firm's human resources. Shortages and employee mobility have resulted in escalating salaries in, for example, the information technology, financial services and sports sectors where employee bargaining power enables individuals to appropriate a major portion of value-added. Companies must therefore guard against the dissipation of value added and appropriability is the ability to turn value added into profit (Kay 1993).

### **Types of Advantage Creating Resources**

A further problem of nomenclature hampering the development of the resource-based view has been the variety of labels used to describe the firm's resource set. For example, the term competencies appears frequently in the literature sometimes preceded by the adjectives, core and distinctive, sometimes not, sometimes used interchangeably with the term capabilities which, in turn, is used interchangeably with the term skills which is frequently preceded by the adjective, core. To overcome this ambiguity, the label *resources* is best adopted as a general, all-embracing one. Resources, in turn, comprise three distinct sub-groups, namely tangible assets, intangible assets and capabilities as shown in Table 2 which also notes points of commonality with the existing, diverse range of classification schemes used in the literature.

Tangible assets refer to the fixed and current assets of the organisation that have a fixed long run capacity (Wernerfelt 1989). Examples include plant, equipment, land, other capital goods and stocks, debtors and bank deposits. Tangible assets have the properties of ownership and their value is relatively easy to measure (Hall 1989). The book value of these assets is assessed through conventional accounting mechanisms and is usually reflected in the balance sheet valuation of companies. The other defining characteristic of tangible assets is that they are transparent (Grant 1991) and relatively weak at resisting duplication efforts by competitors. For example, though plant or land may be geographically immobile, they are relatively imitable and substitutable.

Intangible assets include intellectual property such as trademarks and patents as well as brand and company reputation, company networks and databases (Hall 1992; Williams 1992). The presence of intangible assets account for the significant differences that are observed between the balance sheet valuation and stock market valuation of publicly quoted companies (Grant 1991; Rumelt 1987) such as in the pharmaceutical sector where patents are critical. Intangible assets have relatively unlimited capacity and firms can exploit their value by using them in-house, renting them (e.g., a license) or selling them (e.g., selling a brand) (Wernerfelt 1989). They are relatively resistant to duplication efforts by competitors. Intellectual property is afforded regulatory protection (Hall 1992) while databases, networks and reputation are examples of asset stocks (Dierickx and Cool 1989) and the inherent complexity and specificity of their accumulation hinders imitability and substitutability in the short run.

Capabilities have proved more difficult to delineate and are often described as invisible assets (Itami 1987) or intermediate goods (Amit and Schoemaker 1993). Essentially capabilities encompass the skills of individuals or groups as well as the organisational routines and interactions through which all the firm's resources are co-ordinated (Grant 1991). Typical of the latter, for example, are teamwork, organisational culture and trust between management and workers. Capabilities do not have clearly defined property rights as they are seldom the subject of a transaction (Hall 1989) resulting in a difficulty in their valuation. They have limited capacity in the short run due to learning and change difficulties but have rela-

tively unlimited capacity in the long run (Wernerfelt 1989). Individual skills may be highly tacit making them inimitable and non-substitutable though as noted earlier they may be hired away by competitors. Where capabilities are interaction-based, they are even more difficult to duplicate due to causal ambiguity and the RBV literature has tended to favour capabilities as the most likely source of sustainable competitive advantage (Collis 1994).

**TABLE 2**  
**A Classification of the Firm's Resource Pool**

	<b>THE FIRM'S RESOURCE BUNDLE</b>		
<b>Author</b>	<b>Tangible Assets</b>	<b>Intangible Assets</b>	<b>Capabilities</b>
Wernerfelt (1989)	Fixed Assets	Blueprints	Cultures
Hall (1992)		Intangible Assets	Intangible Capabilities
Hall (1993)		Assets	Competencies
Prahalad and Hamel (1990)		Core Competencies	
Itami (1987)			Invisible Assets
Amit and Schoemaker (1993)			Intermediate Goods
Selznick (1957); Hitt and Ireland (1985); Hofer and Schendel (1978)			Distinctive Competencies
Irvin and Michaels (1989)			Core Skills

### **The Role of Strategic Choices by Management**

It was noted earlier that a sustainable competitive advantage arising from resource heterogeneity can be expected to lead to superior performance levels or rent. However, to ensure that the level of such returns is not overstated it is also necessary to take account of the cost of resource deployment. Rumelt (1987) has argued that the classical concept of rent applies in a static world and proposes an alternative, entrepreneurial rent (or Schumpeterian rent, Mahoney and Pandian 1992), which he defines as the ex post value or payment stream of a venture minus the ex ante cost of the resources combined to form the venture. Rents of greater than zero are likely to be the result of ex ante uncertainty (Rumelt 1987). The ex ante cost of resources [labeled ex ante limits to competition by Peteraf (1993)] is developed at length in Barney (1986). He analyses the cost of resource deployment or strategy by introducing the concept of the strategic factor market, that is, a market where the resources necessary to implement a strategy are acquired. If this market is perfectly competitive, then the cost of acquiring strategic resources will approximately equal the economic value of those resources once they are used to implement product-market strategies (Barney 1986). However, he adds that strategic factor markets are likely to be imperfect because managers tend to have differing expectations about the future value of a strategy reflecting the uncertainty of the competitive environments facing them. Above normal returns can then be earned by firms who have superior insight into the likely value of a strategy and consequently pay less than the full economic value necessary to implement it. This can be due to more accurate expectations, good fortune or both (Barney 1986).

This highlights the moderating role played by managers in the process by which resources lead to sustainable competitive advantages. Resources, in and of themselves, do not confer a sustainable competitive advantage. As Kay (1993) puts it, a

resource only becomes a competitive advantage when it is applied to an industry or brought to a market. Consequently, Williams (1992) describes the managerial role as specifically one of converting resources into something of value to customers. This involves identifying, developing, protecting and deploying the firm's resource base (Amit and Schoemaker 1993). Though the characteristics of advantage-creating resources are becoming better understood, their identification may still be difficult due to causal ambiguity (Reed and DeFillippi 1990). Once identified, they must be developed and protected. Dierickx and Cool (1989) consider resources as stocks, which cannot be adjusted instantaneously but rather are accumulated through consistent investment. Where investment patterns lack consistency, the stock depreciates. Some models of the resource-based view propose a re-investment of the firm's profits as an essential element of developing the resource base (Bharadwaj, Varadarajan and Fahy 1993; Day and Wensley 1988). Resources must also be protected such as the guarding of trade secrets and the use of the legal framework where intellectual property rights have been violated. Finally, the key managerial task is the effective deployment of resources in the marketplace. Resources should seek to meet industry success factors (Amit and Schoemaker 1993) or try to create new ones generating a Schumpeterian-type revolution in the industry (Lado, Boyd and Wright 1992). Developing a match between the firm's resources and the success factors in the industry is a demanding task and the success of the match is a function of the accuracy of managerial expectations about the value of the strategy (Barney 1986). The complexity of the overall management role is such that good quality, top management, in itself, is a potential source of sustainable competitive advantage (Castanias and Helfat 1991).

In summary, the essential elements of the resource-based view of the firm are the firm's key resources and the role of management in converting these resources into positions of sustainable competitive advantage leading to superior performance in the marketplace. A basic resource-based model of sustainable competitive advantage which demonstrates these linkages and builds on the work of Bharadwaj, Varadarajan and Fahy (1993), Day and Wensley (1988) and Hunt and Morgan (1996) is presented in Figure 2. It highlights that not all resources are of equal importance in terms of achieving a SCA and that management play a critical role in the process of its attainment.

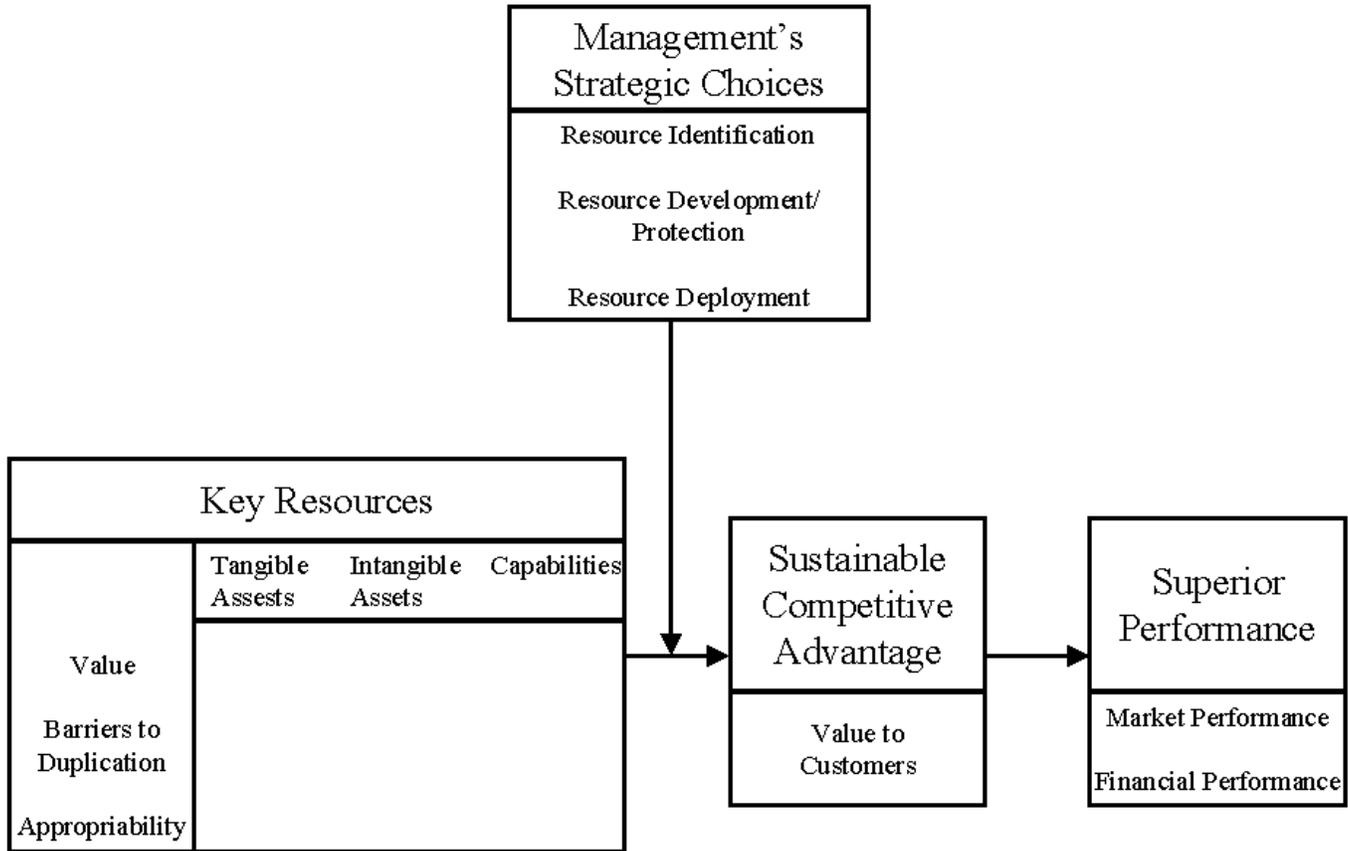
## **AVENUES OF RESEARCH IN STRATEGIC MARKETING**

Through its insights into the nature of competitive advantage, the resource-based view of the firm has already made an important contribution to the field of strategic marketing. The RBV, which has benefited from the rigor of its economic origins, greatly enhances our understanding of the nature and determinants of the sustainable competitive advantage. It helps to explain why some resources are more advantage-generating than others and also why resource asymmetries and consequent competitive advantages persist even in conditions of open competition. But borrowing as it does from strategic management, it also recognises the role of industry effects in observed performance levels which is evident in the ongoing debate on the relative importance of both firm and industry factors (Henderson and Mitchell 1997). But the resource-based view also has the potential to influence, in important ways, discourse in a number of other aspects of strategic marketing. Some of the most likely areas of application are considered in the following paragraphs.

### **Strategic Analysis**

Generally, the starting point of strategic marketing analysis has been to begin by assessing the firm's strengths/weaknesses as part of a broader SWOT analysis. In recent years, reservations have emerged regarding the efficacy of the SWOT framework. For example, a study by Stevenson (1976) found that top managers tended to emphasise financial strengths while middle and lower managers were more concerned about technical issues and that top managers perceived more strengths than lower managers, suggesting a high potential for inconsistency related to who conducts the analysis. A further study of European managers by Schneider and De Meyer (1991) found that perceptions could be influenced by culture with southern European managers more likely to interpret an issue as a threat or crisis. In practice, a SWOT analyses tends to produce a fairly indiscriminate list of variables, leading other authors to advocate that its use be discontinued (Hill and Westbrook 1997).

**FIGURE 2**  
**A Resource-Based Model of Sustainable Competitive Advantage**



The resource-based view of the firm provides a conceptually grounded framework for assessing strengths and weaknesses and enables strengths or weaknesses to be examined in terms of the criteria for establishing sustainable competitive advantage. Adopting the RBV framework maintains a focus on the provision of value as well as the durability of resulting advantages. For example, such a framework forces managers to assess whether or not claimed strengths actually matter in the marketplace – that is do they provide value to customers. The marketing literature is replete with examples of firms that brought unique resources to market and yet failed because these perceived strengths did not actually matter to customers. A classic case in point is the difficulty encountered by Euro Disney in Paris. The company had access to several strengths such as its cohort of cartoon characters, its reputation and its well-honed skills in theme park management. Consequently, Disney executives were very optimistic about the venture and one was even quoted as saying ‘my biggest fear is that we will be too successful’ (Hartley 1998). Yet the company lost \$921m in its first fiscal year of operations casting even the future continuance of the operation in doubt. Though hindsight suggests that a combination of factors combined to produce poor performance, there is no doubt that Disney’s core strengths did not enable the creation of as much value in Europe as they had elsewhere.

The RBV framework also forces executives to think about which of its strengths possess inherent barriers to duplication by competitors. For example, services firms such as advertising agencies and investment banks may find that their only unique resources are certain key individuals which places them in a vulnerable position as these resources are mobile and

may be lured away by competitors. Rather than the indiscriminate lists provided by SWOT analyses, resources should be categorised according to ease of duplication by competitors. The tangible assets/intangible assets/capabilities typology presented earlier gives an implicit hierarchy of resources based on barriers to duplication. Broadly speaking intangible resources and capabilities are more difficult to duplicate and provide a more meaningful basis for marketing strategy development.

### **Segmentation/Positioning**

Product/brand positioning is a core strategic marketing activity (Ries and Trout 1982) and firms can seek to adopt a number of distinct positions in the marketplace. These may involve positions based on price, premium quality, superior service and innovativeness (Hooley 1998). The resource-based view of the firm focuses attention on the ability of the firm to deliver on its desired positioning strategy. For example, if the firm seeks to become a customer service leader in an industry, it needs to develop the resources that are necessary to enable it to try to attain such a position. For example, Marriott Hotel's renowned positioning as a customer service leader in the hotel business is closely related to the resources that it has accumulated through codification and practice over time. Among its distinctive capabilities are a customer-focused organisational culture and an obsession with detail at every level of the organisation (Stalk, Evans and Schulman 1992).

The resource-based view of the firm enables an understanding of the resources that underpin the alternative positioning strategies that may be considered by a firm. For example, the pursuit of a low price strategy is considered to necessitate resources such as cost control systems, TQM processes, skills in procurement and information systems (Hooley, Moller and Broderick 1998). In contrast, a positioning strategy based on superior quality is believed to require a quite different resource set including market sensing (Day 1994), quality control and assurance, brand and reputation and supply chain management (Hooley, Moller and Broderick 1998), while a positioning strategy based on rapid innovation requires skills in the areas of new product/service development, R&D, technical skills and creative skills. In short for any positioning strategy a firm might choose to pursue in the marketplace it is possible to identify a matching resource set, which furthermore allows firms to identify 'resource gaps' that may need to be filled (Grant 1991).

### **International Marketing Strategy**

Questions of international marketing strategy are likely to be particularly enriched by perspectives from the resource-based view of the firm. A focus on aspects of international competition highlights the important differences between country-specific resources and firm-specific resources (Fahy 1996; Porter 1990; Tallman and Fladmoe-Lindquist 1997). The nature and role of country-specific resources (CSRs) goes back to the work of the early trade theorists who focused their analyses on basic factor inputs such as land, labour and capital. In this context, CSRs were seen as inherited rather than created with the result that a country's endowment of CSRs was taken as fixed or static and second, that CSRs were locationally immobile meaning that availing of these resources required some form of presence in the country in which they were held (Dunning 1977; Gray 1982). From a competitive viewpoint, the focus of attention was on the basic inputs into the production process and on how endowments of these factors varied from country to country. Attention was also paid to the role of geographic location as a country-specific resource. Geographic nearness to markets was found to influence investment decisions (Davidson 1980) while the role of cultural proximity or psychic distance was proposed as a key variable by "stages model" theorists (Johanson and Wiedersheim-Paul 1975; Johanson and Vahlne 1977) in their examination of international expansion.

More recent work has broadened the discussion of CSRs still further to include not only inherited resources but also those that are created by a country. The common feature of this type of resource is that it is a product of investments made over a long period of time in any given country (Gray 1982). Typical examples of such resources which have been cited in the literature include the nature of the education system (Davidson 1989; Ghoshal 1987; Reich 1991), technological and organisational capabilities (Kogut 1991; Reich 1991), communications and marketing infrastructures (Dunning 1988; Porter 1990), labour productivity (Lewis et al 1993) and research facilities (Porter 1990). A study by Shan and Hamilton (1991) demonstrated how the success of the US biotechnology industry was a function of a collection of unique, advanced resources including, government support for research in the field, an aggressive entrepreneurial culture supported by favourable capital markets, and a high level of R&D expenditure. Their study also showed that it was a desire to gain access to these unique country-specific resources which was the basis for Japanese cooperative ventures with American firms in this industry.

Furthermore, it is necessary to fully explore the relationships between a firm's stock of firm-specific resources (FSRs) and its country-of-origin. Dunning (1981) has argued that firm-specific advantages (resources), though endogenous to particular firms, are not independent of their industrial structure, economic systems and institutional and cultural environments. Thus, for example, much of the international success of Japanese firms has been attributed to the role of their home government and its ministries (Pascale and Athos 1982; van Wolferen 1989) as well as the ethos of the Japanese population towards work, authority and living standards (Lodge and Vogel 1986). Gray (1982) draws a distinction between "physical" national characteristics (land, natural resources, labour supply and capital) that influence the stock of country-specific resources and "social" national characteristics (social structure, tax structure, treatment of R&D and government policy) which influences a country's stock of firm-specific resources. He cites the example of the nineteenth-century German emphasis on scientific education and chemical research (a "social" national characteristic) as underlying the supremacy of German firms in chemical technology. However, a link between "physical" national characteristics and firm-specific resources has also been identified by Hood and Young (1979), who contend that the superiority of Japanese firms in product minimisation is related to the pressures on physical space in Japan. Perhaps the most comprehensive treatment of the links between the physical, economic and institutional environment of a country and its stock of CSRs and FSRs is provided by Porter's "diamond" of national advantage (Porter 1990; 1991). The four central elements of the diamond are factor conditions (which describe a country's stock of CSRs), demand conditions, firm strategy, structure and rivalry and related and supporting industries all of which combine to influence the FSRs possessed by firms in a particular country. Both CSRs and FSRs in turn are influenced by government policy and chance (Porter 1990).

In short, the resource-based view of the firm also promises to greatly inform issues relating to international marketing strategy. Firms in different countries may originate from and operate in very different environments. Consequently, they may develop resource configurations that can have a dramatic impact on international competition as illustrated, for example, by the initial success of Japanese firms in the United States. In addition, the focus of much international marketing literature has been on the economic, cultural and business characteristics of markets and how this influences international market selection and market growth decisions. The resource-based view of the firm provides an important supplementary perspective, namely, whether or not firms have the capacity for international expansion and whether unique country-specific resources will enable them to attain competitive advantages abroad.

### SOME CONCEPTUAL AND EMPIRICAL ISSUES

The above discussion highlights the importance of the resource-based view to both the understanding of competitive advantage in particular and to the broader study of strategic marketing generally. However, before greater adoption of the perspective takes place, a number of cautionary comments need to be made. First, while it is possible to distinguish a basic hierarchy of resources, viz., tangible assets, intangible assets and capabilities, more fine-grained analysis is likely to lead to difficulties. For example, capabilities are generally considered to be the most potent source of competitive advantage but any given capability is likely to be superseded by a higher order capability leading one into the problem of infinite regress (Collis 1994) with the result that marketing can never hope to find the ultimate source of competitive advantage. This is important, as one of the first applications of the RBV in the marketing area has been as a framework for thinking about marketing resources. For example, Day (1994) has proposed a taxonomy of capabilities to distinguish those which are inside-out, outside-in and boundary spanning. However, it is unclear from such a framework, whether for example, a resource like market orientation can best be thought of as an outside-in capability or a spanning capability, given recent progress in understanding and measuring the concept (Kohli and Jaworski 1990; Narver and Slater 1990). Such broad-based taxonomies are likely to be always incomplete and potentially misleading regarding the sources of advantage.

Second, the resource-based view of the firm like many of its predecessors such as SWOT analysis and the Porter five forces framework has been criticised for presenting a very static view of what is essentially a dynamic process (Dickson 1996). Building on his theory of competitive rationality (Dickson 1992), Dickson notes that heterogeneity in supply and demand is a virtuous cycle with no clear beginning or end as firms respond to changing demand by experimenting with new ways of serving customers. Managerial resource-development decisions set the firm on a path trajectory that may be

positive or negative. For example, Teece, Pisano and Shuen (1997) note that many top quality products have lost out in the marketplace because firms had locked into inferior technologies. Research adopting the resource-based view must recognise the dynamic nature of the resource development process in an uncertain environment.

Third, the lack of empirical validation of its core propositions is perhaps the most critical issue facing the development of the resource-based view in the future (Hoskisson, et al 1999; Wenerfelt 1995). To date, the vast bulk of contributions in the area have been of a conceptual nature. Recent years has begun to see the emergence of some empirical work. For example, studies have progressed from relatively simple efforts to understand the importance of resources to overall success (Hall 1992) to more ambitious attempts to extend the scope of the RBV beyond the boundaries of the firm (Maijor and Van Witteloostuijn 1996). Other work has focused on specific resources such as R&D (Helfat 1994; Henderson and Cockburn 1994) or on resource-related issues in particular industries such as financial services (Levinthal and Myatt 1994). However, this emerging literature has been very diffuse in its hypotheses, methodologies and findings and as yet the core propositions of the resource-based view relating resources, management choices and competitive advantage remain to be validated. Such research efforts are likely to be hampered by the nature of the object under study. Godfrey and Hill (1995) classify resources as one of a number of "unobservables" in management research. This applies particularly in the case of capabilities which are potentially characterised by high levels of tacitness and causal ambiguity resulting in the possibility that the less observable the resource and the less easy it is to understand, the greater the possibility that it is an important source of SCA. This empirical difficulty must be acknowledged and taking Collis' (1994) position that the ultimate source of competitive advantage cannot be found, research efforts should follow Aaker (1989) and Hall (1992) in seeking to understand the importance of those resources that can be measured. Indeed the empirical tradition in marketing, which has already contributed into important ways to the development of strategic management (Biggadike 1981) may be able to provide approaches and methodologies to help fill the empirical void in the RBV.

## CONCLUSION

The resource-based view of the firm is an important, emerging theory of firm heterogeneity. It is well grounded in industrial economics and has benefited in its development from a multiplicity of contributions by management writers. But like any developing body of knowledge, it is not short of confusion, ambiguity and both conceptual and empirical difficulties. This paper provides an integrated review of the resource-based view of the firm in an effort to eliminate much of the ambiguity caused by weak taxonomies and the inconsistent and conflicting use of terminology. It provides a detailed insight into the logic of the RBV and illuminates its contributions to the debate on the nature of competitive advantage. Finally, giving due regard to some conceptual and empirical issues, it highlights a number of promising research directions in the field of strategic marketing.

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