THE RESOURCE CREATION SYSTEM AND COMPETITIVE ADVANTAGE

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ABSTRACT

The resource-based view of the firm has generated significant attention in Strategic Management and other business disciplines. The underlying logic that is most widely accepted is that a firm's competitive advantages are associated with the characteristics of the resources it possesses. In spite of its logical simplicity and substantial empirical support, this perspective offers only limited advice to managers regarding what they can do to develop competitive advantage. This paper offers a complementary view, called the resource creation system, based on the idea that firm resources (financial, human, physical, organizational, and knowledge based) are highly interdependent, in that the creation or utilization of resources in one of these areas influences other resource areas. Consequently, if a firm is weak in one resource area, that weakness will eventually lead to weaknesses in other areas. Furthermore, each resource area is linked to both internal and external stakeholders through the services they provide. In essence, resources are co-created through cooperative processes that link internal and external stakeholders. This perspective suggests that firms can increase their competitiveness over the long run by addressing their weakest resource areas. Furthermore, a firm can take advantage of strengths in one resource area to build other areas.

Keywords: Competitive advantage, resource-based view, stakeholder theory.

I. Introduction

The resource-based view of the firm is highly influential in strategic management, as well as other business and even non-business disciplines (Barney and Arikan, 2001). The perspective found in Barney's (1991) paper has stimulated the most interest. The most widely-used ideas deal with how to recognize which resources either are or have the potential to lead to competitive advantage. These ideas have risen to the status of a theory in the strategic management literature, and many scholars refer to them as "the resource-based perspective." So much attention has been devoted to applying, testing and extending the concepts from the 1991 article that it might appear to be the only practical application of a resource-based perspective. Nevertheless, another useful resource-based perspective exists that may have the potential to help explain competitive performance just as well as the 1991 perspective. In fact, it may be even more useful to executives because, by its nature, it can help executives know where to focus their attention in order to achieve higher levels of competitive performance.

The perspective being advanced herein is the resource creation system of firm competitiveness. It is based on the idea that resources are created in an organizational system. They are interdependent. Creation of resources in one area of the firm influences creation of resources in another area, which leads to another area, until the cycle eventually comes back to influencing resources in the original area. Furthermore, a variety of stakeholders are instrumental in determining a firm's resource position in particular areas. Consequently, this perspective suggests the need for firms to jointly examine internal resource creation systems and external linkages between those systems and external stakeholders.

This paper will present the resource creation system perspective of firm competitiveness. It will also be compared to the predominant resource-based view (Barney, 1991). The two views are largely complementary rather than competing. Research questions will be presented and practitioner implications will be addressed.

II. A Systems-Oriented Resource-Based Perspective

The resource creation cycle is founded on the idea that firm resources (financial, human, physical, organizational, and knowledge based) are highly interdependent. As illustrated in Figure 1, creation/utilization of resources in one area of the firm influences creation/utilization of resources in other areas. Physical resources include products and services as well as the physical structures, systems and equipment used to create them. General organization resources consist of a firm’s reputation as well as assets such as brands and patents. Knowledge and learning resources include the knowledge found in the organization as well as the systems the firm uses to collect, store, organize and disseminate this knowledge. They also include learning systems for creating new knowledge such as research and development programs. The finance and human resource areas are self-explanatory.

[insert Figure 1 about here]

The interconnectedness of resources can be illustrated with a simple example. Financial resources are used to acquire the human resources needed to help the organization achieve its goals. If financial resources are weak, the firm will not be able to acquire high-level, talented and hard-working employees. Subpar human resources are likely to impact knowledge and learning resources because the people hired are not as talented or creative. This will adversely impact the quality of products and services and therefore the reputation of the firm and its products and services (general organization resources). Demand will drop, resulting in an inability to acquire the necessary financial resources to regenerate the system. This sort of logic holds regardless of where in the system the example begins.

Modeling resources in this way, it becomes apparent that the resource area that is weakest given the environment (i.e., industry, economy) in which a firm competes is the one that should be given the most managerial attention. This principle is akin to what chemists call a “limiting reagent.” For instance, if one chemical in a chemical reaction gets used up before the other chemicals, then it is the one that is holding back the reaction from producing more of the product. Similarly, in biology a nutrient that is in short supply relative to the others will limit cellular growth. This is called a limiting nutrient.

To the extent that these systems principles from the hard sciences also apply to social systems, the implications seem fairly clear. If a firm has a resource area that is weak, given its context, then its managers should devote attention to improving in that area. It is also possible that a firm has resources in an area that are much stronger than they need to be, given the constraints of the environment and its other resource positions. In chemical reactions, this is called an excess reagent. It is akin to slack in the financial area, but applies broadly across other areas as well. Clearly, some slack is useful and, for example, a certain amount of financial slack has been positively associated with a firm’s ability to take advantage of innovations. However, beyond a point, excess slack is simply waste. A firm may be able to reallocate excess in one resource area to another area that might currently be holding back the whole system.

Something should be said about context. The fact is that resource levels that are going to be most successful and thus lead to competitive advantage will differ depending on the environment in which the firm does business. In fact, for diversified firms, resource requirements for competitive advantage may be different from one business to another. Also, there may be one resource area that is the most important to competitive advantage in a particular context. This is analogous to a keystone species. In a biological system, a keystone species has a disproportionate impact on the success of other species. For example, a beaver dam can create an aquatic environment that can sustain hundreds of species that otherwise could not survive.

Of course, firms are not closed systems. As open systems, they are dependent on the external environment for survival (Cameron, 1980). Figure 2 provides examples of stakeholders that are responsible, in part, for a firm's success in obtaining particular resources. Firms that have strong relationships with their stakeholders are in a better position to obtain resources that will lead to competitive advantage. For instance, a firm with a reputation for treating stakeholders well is more attractive to stakeholders such as customers and suppliers, which means that they are more likely to buy the firm's products or enter into contractual agreements with them. A trustworthy reputation can be a source of advantage in the formation of alliances, long-term contracts and joint ventures as the firm is presented with a larger number of better business opportunities from which to select (Barringer and Harrison, 2000). Also, highly skilled potential employees are likely to be attracted to the best employers (Turban and Greening, 1996).

[insert Figure 2 about here]

If stakeholders trust that a firm will actually follow through on agreements, then the costs associated with creating and enforcing contracts are minimized (Williamson, 1975). In addition, organizations with excellent stakeholder relationships are more likely to learn from their stakeholders, since transfer of knowledge from firm to firm requires a high level of trust. In addition to trustworthy behavior, firms should exhibit behavior associated with distributive, procedural, and transactional justice (Harrison, Bosse and Phillips, 2010). Distributive justice means that firms fairly allocate value to the stakeholders that helped to create it. Procedural justice is associated with decision making processes that are considered fair by stakeholders. Transactional justice means that a firm treats all of its stakeholders with respect and fairness. In these conditions, stakeholders are more likely to share sensitive information because they believe that the firm will not use it against them and that doing so will, over the long run, provide reciprocal benefits. This kind of information can spur innovation, as well as allowing the firm to deal better with changes in the environment. Research findings demonstrate a positive relationship between strong stakeholder relationships and firm financial performance (i.e., Fombrun and Shanley, 1990; Greenley and Foxall, 1997; Hillman and Keim, 2001; Preston and Sapienza, 1990; Sisodia, Wolfe and Sheth, 2007).

III. Discussion

The resource creation system perspective is consistent with a dynamic capabilities approach that suggests that a firm's strategy arises from changes in the initial resource endowment in a coordinated fashion (e.g., Dierickx & Cool, 1989; Eisenhardt & Martin, 2000; Grant, 1996; Helfat, 1997; Mahoney, 1995; Teece, Pisano & Shuen, 1997). It is also consistent with a service-dominant logic perspective in that firms and their stakeholders co-create value (Vargo and Lusch, 2008). In the model found in Figure 2, each stakeholder provides services to the firm and the firm provides services to each stakeholder, whether the service is to provide money, knowledge, assistance, cooperation, advice or something else. Value is created in complex stakeholder networks in which stakeholders interact with each other as well as with the firm.

One of the disadvantages of the predominant approach to the resource-based view of the firm is that often it does not provide much direction to managers. Using the approach, managers may understand better why they are enjoying competitive success so that they can take full advantage of a particular resource. They may also be able to estimate whether a resource they are trying to develop or acquire is likely to lead to competitive advantage. These are useful things to understand. However, this is not much direction when you consider how many strategic possibilities this knowledge leaves open to firms and their managers. Barney and Arikan (2001: 174) state that “it may often be the case that the link between a firm’s resources and the strategies a firm should pursue will not be so obvious. For example, sometimes it might be the case that a firm’s resources will be consistent with several different strategies, all with the ability to create the same level of competitive advantage. In this situation, how should a firm decide which of these several different strategies it should pursue?” On the other hand, the resource creation system approach suggests that a firm should focus managerial attention on the resource area that is holding back the firm from a higher level of performance.

Also, from a practical perspective, highly successful firms often do not have a rare and inimitable resource that is providing competitive advantage. Instead, they have a system of resources, including relationships with external stakeholders, that allows them to achieve high performance. Managers in these firms need to ensure that nothing happens to upset the system, such as a major problem in one resource area, but they should also continuously try to determine which resource area is the one holding back the firm at any particular time. Also, managers should work to determine if a resource area is a source of overinvestment, while maintaining enough slack to make up for shocks and/or take advantage of new opportunities. It is probable that most managers already do these things instinctively, but the current version of the resource-based view does not model this sort of behavior.

The predominant perspective and our version of the resource-based view are complementary rather than competing. We acknowledge that the types of distinctively valuable resources described by Barney (1991) have value; however, our perspective helps explain why some firms are so successful without possessing any particularly rare or inimitable resources. Our version also provides additional direction to managers. Some interesting research questions that come from a resource creation system approach include:

1. Does the scientific principle of a limiting nutrient or reagent apply well to the competitive position of a business firm?
2. How can the resource areas that are limiting competitiveness be identified?
3. Can the success of firms that do not possess uniquely valuable resources be explained in terms of a resource creation system?
4. If firms do possess uniquely valuable resources, can the resource creation system approach increase their performance further?
5. Are managers aware of resource areas that are holding back the performance of their firms? If so, what are the factors that are preventing a solution to the problem?
6. Are managers aware of resource areas that represent over-investments by their firm? If so, why do they not reallocate resources away from those areas and into areas that need attention?

IV. Conclusion

Resource-based theory is important to a variety of business disciplines. The prevailing logic that dominates the resource-based literature is that competitive advantage is associated with possession of resources that are rare, valuable, nonsubstitutable and inimitable. While there is empirical support for this perspective, it is limited in its application and its practical significance. The resource creation system offers an alternative, but complementary, perspective that may better explain how valuable resources are created and why some firms seem unable to achieve sustainable performance in spite of valuable resources they possess. This model of resource creation and utilization is consistent with the perspective that internal and external stakeholders co-create valuable resources that lead to competitive advantage and thus superior long-term performance.

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Figure 1
Organizational Resource Interconnectedness

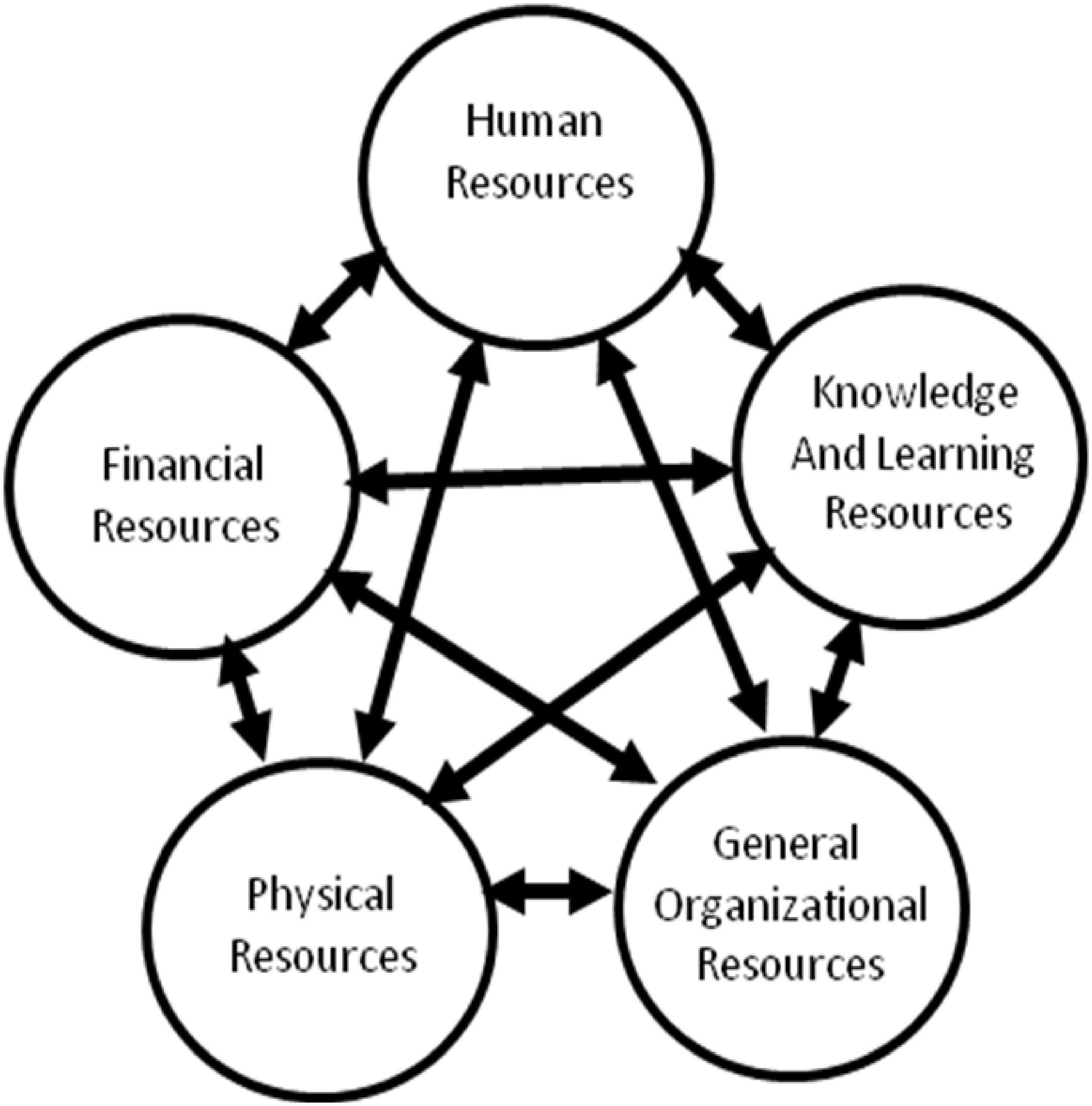

Figure 2
Examples of Stakeholders Connected to Resources