



Encyclopedia of New Venture Management

Resource-Based View

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Book Title: Encyclopedia of New Venture Management
Chapter Title: "Resource-Based View"
Pub. Date: 2012
Access Date: November 15, 2020
Publishing Company: SAGE Publications, Inc.
City: Thousand Oaks
Print ISBN: 9781412990813
Online ISBN: 9781452218571
DOI: <http://dx.doi.org/10.4135/9781452218571.n158>
Print pages: 397-398

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The term resource-based view (RBV) refers to a strategic management approach that has deep theoretical roots based in part on sociology and Ricardian and Penrosian economic theories according to which firms can earn sustainable supranormal returns if, and only if, they have superior resources and those resources are protected by some form of isolating mechanism precluding their diffusion throughout the industry.

Resources, as defined in the context of the RBV, are the tangible and intangible assets firms use to conceive of and implement their strategies. Resources include physical, financial, individual, and organizational capital as well as managerial teams, senior management groups, entrepreneurial skills, proprietary technologies, relationships, and the collective learning in the organization.

Firms that have the ability to capitalize on and exploit such valuable resources can, by doing so, achieve a competitive advantage, with the ultimate goal of transforming a short-run competitive advantage into a sustained competitive advantage. A sustained competitive advantage is defined as the firm's ability to implement valuable product market strategies that are not currently being implemented by its competition and where efforts to imitate those strategies by the competition have ceased. The transformation of a short-run competitive advantage into a sustained competitive advantage requires that the resources available to the firm be diverse in nature, inimitable, not substitutable without extreme effort, and not perfectly mobile. This approach presupposes that the theory of competitive advantage a firm achieves in its portfolio of product market positions is directly reflected in the portfolio of resources it controls.

The fundamental principles of the RBV within the field of strategic management were introduced in 1984 by Berger Wernerfelt in his seminal article "A Resource-Based View of the Firm," in which he posits that firms in control of valuable, scarce, and nonsubstitutable resources that are inelastic in supply can gain persistent competitive advantages by using them to develop and implement strategies. When strategic factor markets are in parity, the cost of acquiring or developing a resource will equal the value of that resource in enabling a firm to conceive of and implement a strategy. Given that the cost of acquiring or developing a resource is equal to the value of the resource, these resources will not be a source of economic rent. However, an economic rent can be achieved if the strategic factor markets are subjected to conditions of competitive imbalance.

In 1986, Jay Barney's article "Strategic Factor Markets: Expectations, Luck and Business Strategy" suggested that strategic factor markets can be competitively imperfect when two conditions exist: (1) when the expectations about the future value of the resources required by a firm to develop and implement its strategy are underestimated, and (2) when some firms have a more accurate assessment of the future value of the resources required than other firms.

Historically, research on the value of resources having a direct affect on firm performance is found in elements of works by Alfred Chandler, Ronald Coase, Edith Penrose, and Oliver Williamson. The firm's bundle of resources can be evaluated using the VRIN criteria, which characterize resources as follows:

- **Valuable:** Resources are valuable to the extent that they must enable a firm to employ a value-creating strategy, by either outperforming its competition or reducing its own weaknesses—or, expressed differently, if they enable a firm "to conceive of or implement strategies that improve its efficiency and effectiveness." Firms that continue to acquire or develop valuable resources in consistently uncertain settings can gain persistent economic rents.
- **Rare:** Resources are rare to the extent that demand for them outstrips supply. One simple approach in determining rarity of a resource is to count them; a resource must, by definition, be rare. In a perfectly competitive strategic factor market, when only one competing firm controls a resource, that resource is rare. Resources are also considered rare when the number of firms that possess a resource is lower than the number required to generate competitive strategic parity.
- **Inimitable:** Resources are inimitable to the extent that they are unique and unmatched by competitors; thus, by extension, an inimitable resource is a source of a competitive advantage if it is controlled only by one firm. The superior performance generated does not lead to competitive parity, since the firms without the resources necessary to conceive and implement a strategy efficiently and effectively will find it costly to acquire and develop them. The paradox of inimitable resources is that,

as soon as they show clear promise of a sustained advantage, they risk being competed away; their strength becomes their weakness.

- **Nonsubstitutable:** Resources are nonsubstitutable to the extent that they can be uniquely used to help conceive of and implement a strategy. If a resource can be easily substituted by another resource that delivers the same effect, then it cannot remain a source of a competitive advantage. Hence, a strategy is nonsubstitutable when such a one-to-one nexus exists between a given resource and a strategy. Nonsubstitutability is not confined to a single resource that enables a firm to develop and implement a strategy; rather, it may consist of a bundle of resources.

The RBV has been criticized for ignoring the existence of the factors surrounding the resources that are the fundamental determinants of firm performance and, as such, does not attempt to explain the nature of the isolating mechanisms that enable entrepreneurial rents and competitive advantage to be sustained.

David Teece, Jay Barney, and Kathleen Eisenhardt have introduced the theory of “dynamic capability” (DC), which extends the RBV to include the firm's evolving capabilities and how they are developed and integrated within the firm. Dynamic capabilities are defined as the firm's ability to integrate, build, and reconfigure internal and external competencies to address rapidly changing environments. Whereas the RBV emphasizes resource choice, or selecting the appropriate resource, the concept of DC emphasizes developing and renewing resources based on sequences of path-dependent learning.

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<http://dx.doi.org/10.4135/9781452218571.n158>

See also

- [Competition](#)
- [Family Business: Theory](#)
- [Human Capital Theory](#)
- [Human Resource Strategy](#)
- [Knowledge-Based View](#)
- [Obstacle Identification](#)
- [Resource-Based View](#)
- [Strategy](#)

Further Readings

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