

Resource Based View

Strategy context refers both the internal and external factors of the organization. Organizations need to consider the opportunities and threats of its external environments. When it comes to internal context, organization need to consider strengths and weaknesses of the organization. Further, strategies are influenced by the organizational culture (Robbins, 2001). In early 1980s, Porter explained two theories that help to companies to get competitive edge in the industry: market based view and resource based view. Market based view argue that external market factors and industry factors are the main determinations to the company performances. On the other hand resource based view (RBV) refer that organization's strategy is driven based on the internal environment to achieve competitive advantage and develop and use organization resources to compete in the business environment (Johnson, Whittington, Scholes, Angwin and Regner, 2016). Resource based view can be defined as the competitive advantage and greater performance of a firm is explained by the distinctiveness of its capabilities. There can be identified three main resource categories such as physical, monetary and human. In this approach, mainly company need to identify their core competencies and those core competencies can sue to achieve the competitive edge in the market. Characteristics such as value, rarity, imitability and organization need to be there in those core competencies. According to Stones (2001), RBV use VRIO strengths and capabilities to add more value to customers which make difficult to imitate. In this approach, company need to understand the relationship between competencies, resources and competitive advantage. The purpose of this section is to identify the merits and demerits of the RBV.

Merits

Creating competitive advantage

One of main merit is that RBV allow to focus about internal resources and try to make them value, rarity and competitive superiority. These characteristics definitely help company to achieve the competitive advantage. All the resources are not important to achieve the competitive advantage. Valuable resources are the significant to company to successfully to meet the customers' requirements. Rare resources differentiate the organization from other competitors. Developing intimate resources make difficult to competitors to imitate the organization (Wang, 2014). Therefore, finally, all these characteristics of the resources drive company to create a significant competitive advantage.

Improve strategic capabilities and organization performance

Company has ability to improve the strategic capabilities and organization performance through allocating relevant resources. RBV focus on allocating right resources to generate more profit. The strategic capabilities of the company has involved with the coordinating, organizing and revamping resources and it is significantly important to achieve the better performances (Madhani, 2014). Toyota is one of example for implicating RBV and improve the performances. Toyota production system and Just in time (JIT) approach helps Toyota to perform well and successfully approach to dynamic business environment. This gives opportunity to manufacturing organizations to build up capabilities to deal with different market situation rather than avoid uncertainties.

Improving flexibility

Some of companies outperform others since these companies are highly flexible which very difficult to imitate and use of basis of capabilities. There can be two types of capabilities such as process based capabilities and network based capabilities which improve the flexibility. The companies which has process based capabilities transform inputs to output effectively and outperform the competitors. The key reason for the success of these companies is efficiency of transforming inputs such as information to products and services. On the other hand, companies that has network base capabilities has ability to integrate product design and offer customized product (Wang, 2014). Companies such as McDonalds and Dell have process based capabilities and network base capabilities respectively. Both these companies use their available resources to produce differentiate product RBV develop a solid base to organizing flexibility and develop interrelationships which lead to achieve competitive edge.

RBV strengthen the current abilities of the firm.

RBV approach exploit internal strengths to take the external opportunities to achieve the competitive advantages. Further it helps to avoid the internal weaknesses and neutralized external threats. The RBV analysis builds on the contribution to enterprise value creation by examining competencies and achieving the necessary standards of international competition. The RBV identify existing capabilities that generate high performances and strengthens the unique resources which create value. The high value creation allows the organizations to use appropriate resources to create more dynamic capabilities. Further this helps to create entire new capabilities based on

current resources that provided competitive edge in the market. Higher management can develop managerial systems and a culture to develop capability innovation.

Drawbacks

Lack of dynamics

RBV may only apply in comparatively stable conditions where business environments remain comparatively fixed and predictable. In highly dynamic business environment, the value of resources can be easily weakened. Competitive advantage of a particular resource can be diminished since the changes of the environmental condition. Resources need to be changed and adopted to survive in dynamic business environment. However, some argue that RBV does not explain the origin of the resources (Johnson, Whittington, Scholes, Angwin and Regner, 2016). Further, RBV does not much consider about opportunities and threats in SWOT analysis and how to position themselves in the market. It only consider use resources to exploit opportunities. Further, RBV has ignored the impacts of Porter's competitive strategy and overestimate the ability to leverage the resources to outperform in the industry.

The risk of tautology.

RBV simply explain that resources and capabilities which are valuable and rare lead to competitive advantage. However according to Priem and Butler (2001), since competitive advantage is based on the value and rarity it could be verges and tautology. Organization outperform other organizations and become market leader since it has superior resources or is better at something than other organizations is not always the case unless organization enable to be specific about what resources are more useful and important and how the resources can be managed . Good management can become very successful by only using limited resources. Value uncertainty, innovation and resource specification is more important to competitive advantage than VRIN resources (Johnson, Whittington, Scholes, Angwin and Regner, 2016).

Lack of specificity

The definition of the resources have been covered and inclusive every assets of the organization. If everything can be a resource, nothing strategically useful can be associated with the firm that is not a resource (Johnson, Whittington, Scholes, Angwin and Regner, 2016). However, RBV is not clearly defined the specifics of resources and capabilities. RBV has been ignored the importance

of tactical knowledge and when it comes to value the resources, RBV need to consider the subjectivism, entrepreneurial judgement and knowledge creation.

Underestimate the customers' value and role of customers' need.

RBV does not define the customer value and undervalue the customers' need that can be managed within the organization in strategy developing process. Therefore, companies cannot position in the market in right way. One of the good example for that is HP was dominant in the software development industry in few decades ago and it was the benchmark for the other companies to follow. However, IDM overtake the HP since HP undervalue the future customers' requirements and its competitors' strengths. Therefore, latter IDP enable to over perform HP and diversify its intellectual capital (Madhani, 2014).

However, in general RBV is considered as driving factor to improve organizational performance and to achieve the competitive advantage. RBV allows companies to effectively utilize the resources and create more value to the companies. As a recommendation, Porter's five forces also need to apply parallel with the RBV approach. Further, companies need to consider the customers' values and their requirements to strategic development process. This could help to companies to overcome the disadvantages of RBV. Through VRIN model, RBV enable companies to understand the strategic resources. However, company cannot get the sustainable competitive advantage by only considering internal resources and exclude opportunities.

References

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