
As recently as ten years ago, we thought we knew most of what we needed to know about strategy. At business-unit level, the pace of global competition and technological change has left managers struggling to keep up. As markets move faster and faster, managers complain that strategic planning is too static and too slow. In the 1980s, corporations were often destroying value by owning the very divisions that had seemed to fit so nicely in their growth/share matrices. Threatened by smaller, less hierarchical competitors, many corporate stalwarts suffered devastating setbacks or underwent dramatic transformation programs and internal reorganizations. The lessons from Tom Peters and Bob Waterman’s companies led the way, closely followed by total quality management as strategy, reengineering, core competence, competing on capabilities, and the learning organization. As the result, some new approaches were developed to address these multiple assaults on the premises of strategic planning. A framework that has the potential to cut through much of this confusion is now emerging from the strategy field. This approach is grounded in economics, and it explains how a company’s resources drive its performance in a dynamic competitive environment, term it as the resource based view of the firm (RBV).

The RBV combines the interval analysis of phenomena within companies with the analysis of industry and the competitive environment. It derives its strength from its ability to explain in clear managerial terms why some competitors are more profitable from the others, how to put the idea of core competence in practice, and how to develop diversification strategy that make sense. No two companies are alike because no two companies have had the same set of experiences; acquire the same assets and skills, or built the same organizational cultures. These assets and capabilities determine how efficiently and effectively a company performs its functional activities. Following this logic, a company will be positioned to succeed if it has best and most appropriate stock of resources for its business and strategy. The valuable resource may be an organizational capability embedded in a company’s routines, processes, and culture. For example, the skills of Japanese automobile companies - first in low cost, lean manufacturing; next in high quality production; and then in fast product development. These capabilities transform pedestrian or commodity inputs into superior products and make the companies that have developed them successful in the global market. Competitive advantage, whatever its
source, ultimately can be attributed to the ownership of a valuable resource that enables the company to perform activities better than the competitors.

A resource that is valuable in a particular industry or at a particular time might fail to have the same value in a different industry. Competing on resource sounds simple, but in practice managers often had a hard time to identify and evaluate the companies’ resources objectively. For a resource to qualify as the basis for an effective strategy, it must pass a number of external markets to test its value. How to test the value of a resource?

1. The test of inimitability: Is the resource hard to copy? Inimitability is at the heart of value creation because it limits competition. If a resource is inimitable, then any profit stream it generates is more likely to be sustainable. Possessing a resource that competitors easily can copy generates only temporary value. Inimitability doesn’t last forever because competitors will find ways to copy most valuable resources. But because managers fail to apply this test rigorously, they try to base long term strategies on resources that are imitable. But managers can forestall them by building strategies around resources that have at least on of the following characteristics:

   a. Physical uniqueness, by definition cannot be copied. A wonderful real estate location, mineral rights, or Merck and Company’s pharmaceutical patents simply cannot be imitated.

   b. Path dependency, since the resources are unique, therefore, scarce because of all that happened along the taken in their accumulation. As the result, competitors can’t go out and buy these resources instantaneously. Instead, they must be built over time in ways that are difficult to accelerate.

   c. Causal ambiguity, would-be competitors are thwarted because it is impossible to disentangle either what the valuable resource is or how to re-create it. For example, as Continental and United try to mimic Southwest’s successful low cost strategy, what will be most difficult for them to copy are not the planes, the routes, or the fast gate turnaround. All of those are readily observable and in principle, easily duplicated. However, it will be difficult to reproduce Southwest’s culture of fun, family, frugality, and focus because no one can quite specify exactly what it is or how it arose.

   d. Economic deterrence, occurs when a company preempts a competitor by making a sizeable investment in an asset. For example, the minimum efficient scale for
float-glass plants is so large that many markets can support only one such facility. Because such assets cannot be redeployed, they represent a credible commitment to stay and fight it out with competitors who try to replicate the investment. As companies rush to modernize, the first to build a float-glass facility in a country is likely to go unchallenged by competitors.

2. The test of durability: How quickly does this resource depreciate? The longer lasting a resource is, the more valuable it will be. While some industries are stable for years, managers today recognize that the value of resources deprecates quickly. An economist described waves of innovation that allow early movers to dominate the market and earn substantial profits. However, their valuable resources are soon imitated or surpassed by the next generation innovation, and their superior profits turn out to be transitory. Banking in the durability of most core competencies is risky, because most resources have a limited life and will earn only temporary profits.

3. The test of appropriability: Who captures the values that the resources create? Not all profits from a resource automatically flow to the company that owns the resource. The value is always subject to bargaining among a host of players, including customers, distributors, suppliers, and employees. For example, a critical resource of LBO firms was the network of contacts and relationships in the investment banking community. However, this resource often resided in the individuals doing the deals, not in the LBO firm as a whole. These individuals could depart to set up their own LBO funds or move to another firm where they could reap a greater share of the profits that their resource generated.

4. The test of substitutability: Can a unique resource be trumped by a different resource? Since Michael E. Porter’s introduction of five forces framework, every strategist has been on look out for the potential impact of substitute products. The steel industry, for example, has lost a major market in beer cans to aluminum makers in the past 20 years. These resource based view pushes this critical question down a level to the resources that underpin a company’s ability to deliver a good or service.

5. The test of competitive superiority: Whose resource is really better? The greatest mistakes managers make when evaluating their companies’ resources is that they
don’t assess them relative to competitors. How many consumer packaged-goods companies assert that their core competence is consumer marketing skills? They may indeed all be good at that activity, but a corporate strategy built in such a core competence will rapidly run into trouble because other competitors with better skills will be pursuing the same strategy. The way to avoid the vacuous ness generic statements of core competence is to disaggregate the corporation’s resources.

Managers should build their strategies on resources that meet five tests outlined above. The best of these resources are often intangible, not physical, hence the emphasis in recent approaches on the softer aspects of corporate assets – the culture, the technology, and the transformational leader. Because all resources depreciate, an effective corporate strategy requires continual investment in order to maintain and build valuable resources. The mandate to reinvest in strategic resources may seem obvious. The great contribution of the core competence notion is its recognition that, in corporations with a traditional divisional culture, investment in the corporation’s resources often takes a backseat to optimizing current divisional profitability. At the same time, investing in core competencies without examining the competitive dynamics that determine industry attractiveness is dangerous. By ignoring marketplace, managers risk investing heavily resources that will yield low returns. Similarly, if competitors are ignored, the profits that could result from a successful resource-based strategy will dissipate in the struggle to acquire those resources.

What if a company has no unusually valuable resources? Or what if a company’s valuable resources have been imitated or substituted by competitors? Upgrading resources means moving beyond what the company is really good at, which can be accomplished in a number of ways. The first is by adding new resources, the way Intel Corporation adding new brand name, Intel Inside, to its technology resource base. The second is by upgrading to alternative resources that are threatening the company’s current capabilities. And the last, a company can upgrade its resources in order to move into a structurally more attractive industry, the way Nucor Corporation, a U.S steel company, has made the transition from competitive, low-margin, down-stream businesses, such as steel joist, into more differentiated, upstream businesses, such as thin-slab cast-steel sheets.

The RVB help us understand and identifies three commons and costly strategic
errors companies make when they try to grow by leveraging resources. First, managers tend to overestimate the transferability of specific assets and capabilities. Because valuable resources are hard to imitated, the company itself may find it difficult to replicate them in new markets. Second, managers overestimate their ability to compete in high profitable industries. Such industries are often attractive precisely because entry barriers limit the number of competitors. The reason competitors find it so hard to enter the business is that accumulating resources is difficult. If it could be done easily, competitors would flock to the opportunity, and driving the average returns. Third, leveraging generic resources, such as lean manufacturing, will be a major source of competitive advantage in a new market.

Despite the common pitfalls, the rewards for companies that leverage their resources appropriately, as Disney, are high. Newell Company is another stunning example of a company that has built a set of capabilities and used them to secure commanding positions for products in a wide range of industries. Newell was a modest drapery hardware manufacturer in 1967. This company has made a series of acquisitions, each of which benefited from Newell’s capabilities – its focused control system, its computer links with mass discounters, which facilitate paperless invoicing and automatic inventory restocking, and its expertise in the ”good-better-best” merchandising of basic products, in which retailers typically choose to carry only one brand name but with several quality and price level. Each acquisition gave Newell another opportunity to strengthen its capabilities. Today, Newell holds leading market positions in drapery hardware, cookware, glassware, paint brushes, and office products and maintains 15% earnings growth annually. What differentiates this diversified company from a host of others is how it has been able to use its corporate resources to establish and maintain competitive advantage at the business-unit level.

Whether a company is building a strategy based on core competencies, is developing a learning organization, or is in the middle of a transformation process, those concepts can all be interpreted as a mandate to build a unique set of resources and capabilities. Strategy that blends two powerful sets of insight about capabilities and competition represents an enduring logic that transcends management fads.