Resource Based View [RBV]

Idea In Short

Resource-based view argues that resources, both tangible and intangible, must be heterogenous, immobile and have VRIO properties to become VRIO resources. VRIO resources result in sustained competitive advantage.

What is a resource-based view?

RBV is an approach to achieving sustained competitive advantage. The thinking around this approach emerged in the 1980s and 1990s, following publications by Birger Wernerfelt1, Prahalad and Hamel2, Barney, J3 and others. The supporters of this view argue that organizations should look inside the company to find the sources of competitive advantage, instead of looking at the external competitive environment. According to RBV proponents, it is easier and more feasible to exploit external opportunities by deploying existing resources in a new way. This approach is in contrast to acquiring new skills or developing new capabilities for each different opportunity. According to the RBV model, resources play a major role in organizations achieving higher performance. The two types of resources are:

- Tangible, and
- Intangible

Tangible assets

Tangible assets are physical things. Land, buildings, machinery, equipment and capital – all these assets are tangible. Organizations can easily purchase the physical resources in the market. So, they confer little advantage to the companies in the long run. This is because rivals can also acquire identical assets, which delivers competitive parity.

Intangible assets

Intangible assets are assets that have no physical presence. However, a company can own these assets. Examples of intangible assets are brand reputation, trademarks, intellectual property, etc. Unlike tangible assets, companies take a long time to build intangible assets. Hence, a company's competitors cannot easily buy these assets from the market. Usually, intangible assets usually within a company. As a result, intangible assets play a significant role in a company's competitiveness. Often, intangible assets are the main source of a company's sustained competitive advantage. The two critical assumptions of RBV are that resources must also be heterogeneous and immobile.

Heterogeneous

The first assumption is that skills, capabilities and other resources that organizations possess differ from one company to another. If organizations have similar resource profiles, they cannot employ different strategies to out-compete each other. What one company would do, the other could simply follow. As a result, companies achieve no competitive advantage. This is the scenario of perfect competition. Yet, real world markets are far from perfectly competitive. Some companies that are exposed to the same external and competitive forces can easily replicate different strategies and outperform each other. Therefore, RBV assumes that companies achieve competitive advantage by using their different bundles of resources.

> The competition between Apple Inc. and Samsung Electronics is a good example of RBV of strategy. The two companies operate in the same industry and face the same external market forces. However, the companies achieve different organizational performance due to the difference in resources. Apple competes with Samsung in tablets and smartphones markets. Apple's products command a premium, resulting in higher profit margins. However, Samsung cannot follow the same strategy because Samsung does not have the same brand reputation as Apple. Not is Samsung capable [yet] of designing user-friendly products as Apple does.

Immobile

The second assumption of RBV is that resources are not mobile and do not move from company to company, at least in short-run. Due to this immobility, companies cannot

replicate rivals' resources and implement the same strategies. Intangible resources, such as brand equity, processes, knowledge or intellectual property are usually immobile.

Importance of Resource-based View

The resource-based view strategy aims to gain a sustainable competitive advantage. An organization can sustain its competitive advantage only through an extensive resource analysis, resource allocation, and cross-functional resource usage. Likewise, only when a company unleashes its workforce's true potential can it innovate better and stand out in the industry. An RBV strategy helps organizations achieve:

- Visibility for efficient resource allocation
- Maintain competitive advantage
- Cross-functional resource usage

Visibility for efficient resource allocation

The comprehensive view of all the resource pools facilitates managers to gain insight into resource skills and competencies. This, in turn, allows managers to allocate resources as per the scope and market demand of its products and services. Real-time information helps them make data-driven decisions, leverage talent to the maximum potential, and maximize profitability.

Maintains the competitive advantage

The rise in market volatility propels extensive ad hoc customer demands. Responsiveness to changing marketplace conditions often becomes the deciding factor for a company's growth and success. In these situations, managers can utilize both their tangible and intangible assets to execute critical strategic responses. An RBV of strategy enables demand fulfillment to sustain a company's competitive advantage.

Cross-functional resource usage

In a matrix organization, the resource-based strategy model facilitates enterprise-wide visibility of the workforce and its expertise. It helps in allocating appropriate resources from different departments and form a cross-functional team to execute the project. It reduces hiring cycle costs and also helps to leverage the diversified workforce. Besides, employees

are also given multi-faceted projects to work on enhancing their professional portfolio.

Critiques of RBV

Supporters of RBV posit that competitive advantage is best achieved by utilising present internal resources. However, this has drawn many critics within leadership and management. Other theories and frameworks, such as the industrial organisation view (I/O), place more emphasis on strategic planning, regulatory policy and the activity of market competition. The authors of RBV frameworks tell managers that they should find and develop high potential resources, using the VRIO framework. However, they do not suggest how this should be done. In reality, there is little that managers can do to improve the available resources. This framework also neglects the leadership and managerial capability to improve the processes and create systems leading to higher-value resources. In the long run, these resources have a more pronounced impact on the organisational performance. The levels of organisational learning and adaptiveness are critical success factors in the long run. The RBV is an important model only in the short run. Furthermore, in unpredictable markets, disruptive innovations can have an almost instantaneous and drastic effect on the value of resources. This can render previous activities to try and generate a sustainable advantage totally null. Thus, RBV is applicable only in stable competitive environments.

Summary

Competition is a fundamental aspect of business and innovation. Resources are the force that steers you through this competition. Therefore, utilizing the resources to their maximum potential is the key to maintain and sustain the competitive advantage. A resource-based strategy ensures optimal performance of resources and organization both! RBV can be useful for developing competitive advantage, particularly in the short-term. But, you should use this model in partnership with other frameworks and theories when performing long-term strategic planning.