

# **RESOURCES, CAPABILITIES, AND COMPETITIVE ADVANTAGE**

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## STUDENT'S DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the University of Nairobi for academic credit.

Signed.....

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## Abstract

The Economic environment in the world is changing rapidly. The change is characterised by such phenomena as, changing customer and investor demands, increasing product-market competition and globalization. To compete successfully in this environment, organizations need to continually improve their performance. In this regard, strategic resource management has been viewed as a strategy towards enhancing performance in order to acquire competitiveness, (arliskan (2010). Organizational performance is concerned with establishing congruency between organisational goals and societal aspirations through input-output relationships. Further, performance is the culminating result of interactions of the organisational management systems with both the internal and external environmental factors. In the recent past, an extraordinarily predominant socio-economic-political phenomenon has changed the structural configuration of the business world, and operational paradigms of the manufacturing industries. Historically, financial performance indicators, such as return on investment, return on assets, operating profit margin, profit after tax, earning per share, among others, have been used to determine the performance of organizations. It is with this regard that productivity is gaining ground as an indicator of organizational performance. It is important to note that productivity is affected by both internal and external factors. Culture within an organization is one of the internal factors that may affect productivity. K'Obonyo and Dimba (2009) indeed acknowledged in their research that culture is a very potent factor which affects strategic resource management and productivity. The cultural context in which an organization operates will thus have an effect on the strategic resources that are available and how they can bring optimal utility to the organization. The resource-based view is a way of viewing performance of a firm and in turn of approaching strategy. Prahalad and Hamel (1990) viewed and conceptualized the firm as a bundle of resources. These resources, and the way they are combined, are what differentiates one firm from another. While it might seem somewhat obvious that firms are different because they are comprised of different resources, this perspective is a significant departure from the long dominant market based view held by Porter. Firm resources are generally quite loosely defined, tending to include everything internal to the firm. Barney (1986) lists all assets, capabilities, organizational processes, firm attributes, information, knowledge, among others, as resources. So, if resources can be anything internal to the firm, it is prudent to determine the ones which are

more strategically important and use them to gain competitive advantage. Barney (1991) has put forward a popular checklist to help in determining the resources that are strategic to an organization. Within a firm, there are tangible strategic resources which are mainly human capital and physical capital, and intangible strategic resources which include the firm's organizational capital. Markets change, however, so this means that the resources of an organization also need to change over time to remain relevant in the marketplace. This gives rise to the need for knowledge of the market, which would lead to implementing strategies that would give an organization the competitive edge. The resource based view of strategy will be used to discuss Strategic management and the performance of organizations in the following sections of this paper. This paper will lead to a study that will address the gap in the literature which will answer the question: do organizations realize the potential of the strategic resources that they own when developing strategy and how does this knowledge impact on sustained competitive advantage and organizational performance?

**Key Words:** Capabilities; competitive advantage; competencies; resources; stakeholder.

## **Section 1**

### **Resources, Capabilities, and Competitive Advantage**

#### **1.1 Background**

Organizations operate in an ever changing external environment and have to continuously change if they have to maintain their competitive advantage and positioning in the industry. To understand how competitive advantage emerges, it is imperative to know what competitive advantage is. When two or more organizations compete within the same market, one organization possesses a competitive advantage over its rivals when it earns (or has the potential to earn) a persistently higher rate of profit than its rivals. However, competitive advantage may not be revealed in higher profitability as an organization may forgo current profit in favour of investment in market share, technology, customer loyalty, or executive perks as it pursues future strategies. Competitive advantage emerges when change occurs within either the organization or industry environment.

For an external change to create competitive advantage, the change must have differential effects on organizations because of the different resources and capabilities that they own, or their different strategic positioning. Turbulence in the industry environment may lead to a greater number of sources of change, while the difference in the organizations resources and capabilities have an impact on the dispersion of profitability within the industry. The ability to identify and respond to opportunity lies in the core entrepreneurial management capability. Organizations should identify which particular resources they own that would enable them to gain competitive advantage in the industry.

Responsiveness to the opportunities provided by external change requires one key resource- information- and one key capability- flexibility-. Information is necessary to identify and anticipate external changes. As the pace of change accelerates, organizations become less dependent on conventional analysis of economic and market research data and more dependent on 'early warning systems' through direct relationships with customers, suppliers, and competitors.



The changes that create competitive advantage may be internal as well as external. Internal change could be generated by innovation. Innovation not only creates competitive advantage, but it also provides a basis for overturning the competitive advantage of other organizations. In a business, however, innovation includes new approaches to carrying out business, which may include new models. Strategic innovation involves creating value for customers from novel experiences, products, or product delivery.

Once competitive advantage has been established, it is subject to erosion by competition. The speed with which it is undermined depends on the ability of competitors to challenge the organization either by imitation or innovation. Imitation is the most direct form of competition. Thus, for competitive advantage to be sustained over time, barriers to imitation must exist. The more effective these isolating mechanisms are, the longer competitive advantage can be sustained against the onslaught of rivals. It is not easy to imitate the capabilities of an organization, as they are mostly dependent on the internal mechanisms of the organization and are developed over a period of time. Hence, developing capabilities within the firm may lead to a sustained competitive advantage.

An organization can acquire resources and capabilities in two ways. It can either buy or build them. The period over which a competitive advantage can be sustained depends critically on the time it takes to acquire and mobilize the resources and capabilities needed to mount a competitive challenge. The ability to buy resources and capabilities from outside factor markets depends on their transferability between organizations. The alternative to buying a resource or capability is to create it through internal investment. Where capabilities are based on organizational routines, accumulating the coordination and learning required for their efficient operation can take considerable time. Making profits from competitive advantage requires that the organization first establishes a competitive advantage, and then sustains its advantage long enough to reap the rewards. To identify opportunities for establishing and sustaining competitive advantage, the organization should understand the competitive process in the specific market.

Production activities require complex combinations of resources and capabilities, which in turn are highly differentiated. Each organization possesses a unique combination of resources and capabilities. Differences in resource endowments among organizations also have an impact on the process by which competitive advantage is eroded. Where organizations possess very similar bundles of resources and capabilities, imitation of the competitive advantage of the incumbent organization is easy. Where resource bundles are highly differentiated, competition is likely to be less direct. Using different resources and capabilities, an organization may substitute a rival's competitive advantage. Since substitute competition can come from many directions- alternative resources, technological innovations, and new business models- it is difficult to counter.

Strategy is concerned with matching an organization's resources and capabilities to the opportunities that arise in the external environment. Increasing emphasis on the role of resources and capabilities as the basis for strategy is the result of two factors. First, as the organization's industry environment has become more unstable, internal resources and capabilities rather than external market focus has been viewed as a more secure base for formulating strategy. Second, it has become increasingly apparent that competitive advantage rather than industry attractiveness is the primary source of superior profitability. During the 1990's, ideas concerning the role of resources and capabilities as the principal basis for organization strategy and the primary source of profitability coalesced into what has become to be known as the resource-based view of the firm. In general, the greater the rate of change in an organization's external environment, the more likely it is that internal resources and capabilities will provide a secure foundation for long-term strategy.

Establishing competitive advantage through the development and deployment of resources and capabilities, rather than seeking shelter from the storm of competition, has become the primary goal for strategy. The resource-based view emphasizes the uniqueness of each organization and suggests that the key to profitability is not through imitating other firms, but rather through exploiting the differences.

This paper will seek to address the question of whether firms know which of the resources and capabilities they own enable them to gain competitive advantage in the industry. Fundamental to this approach is recognizing that a firm must seek a thorough and profound understanding of its resources and capabilities. Such understanding provides a basis for: (i) selecting a strategy that exploits that exploits an organization's key strengths. This in effect optimizes the returns for the firm and allows the organization and allows the organization to create synergies between all the related strengths. (ii) developing the organization's resources and capabilities. For firms to develop their resources that lead to sustained competitive advantage, it is necessary to determine the strategic resources and capabilities owned by the organization. Resource analysis is not just about deploying existing resources; it is also concerned with filling resource gaps and building capability for the future and has a profound impact on organizational performance.

Organizational performance is discussed in the next section of this paper. Section 3 of the paper will look at the relationship between resource based view of strategy and competitive advantage. The knowledge gaps are presented in section 4 while the conceptual framework is discussed in section 5. The conclusion of the paper includes the knowledge gaps that the proposed study will address.

## Section 2

### Organizational Performance

#### 2.1 Introduction

Analyzing the effect of resources on the performance of an organization involves not only exploring the role and contribution of the main resources, but also developing an understanding of two issues. First, it is important to explore how resources help in delivering profits in private companies and provide services in publicly owned organizations. Second, it is essential to identify those resources that enable an organization to compete and survive against competition, hence assuring sustained competitive advantage. These two issues have been the main areas of consideration in the resource based view of strategy in an organization. The availability of strategic resources on their own may not lead to sustained competitive advantage for an organization if it lacks internal capability. The organization has also to build competencies that would lead to sustained competitive advantage.

Several organizations may have similar strategic resources, but achieve different performance compared to each other in different functional areas. This leads to the question: do organizations realize the potential of the strategic resources that they own? In answering this question, it is useful to consider the factors that deliver success in an industry as a whole covering both the resources and the environment. However, within the context of the industry, each organization is different. The differences are important in strategy development, so they need to be analyzed carefully for the individual organization.

The resources analysis needs to proceed along two parallel and interconnected routes: (i) the value added route which explores how the organization takes goods from its suppliers and turns them into finished goods and services that are then sold into the environment and (ii) the competitive advantage route which examines the special resources that enable the organization to compete, by analyzing how and why some resources deliver

sustainable competitive advantage. This literature review will concentrate on the second route, which is crucial to strategy development in an organization to determine whether organizations are aware of the resources that confer them with strategic advantage. Both emergent and prescriptive approaches to strategy development regard resources as important. Prescriptive strategists take the view that it is important to use resources efficiently and build on resource strengths. In this view, resources are regarded as inanimate objects without feeling.

Emergent strategists on the other hand question the certainties of the prescriptive view of resources. They lay more emphasis on the impact of the human resource than the prescriptive view considering the human resource not just objects but human beings who can determine the success of strategic change in an organization. It is indeed in line with the emergent view that this study will be conducted to determine whether the organization fully understands the resources that add value to their operations and how this leads to sustained competitive advantage.

## **2.2 The role of resources in the organization**

Understanding sources of sustained competitive advantage that impact on organizational performance for firms, has become a major area of research in the field of strategic management. Wernerfelt (1989) reckons that organizations have the advantage in markets where their resources are superior to those of the competition. This enables these organizations to develop cost leadership strategies to achieve strong market positions at lower costs than competition. Wernerfelt (1989) indicates that to achieve this, the organization must first identify its resources then decide on where to compete. It is only after the identification of resources that the organization may consider on how and where to compete.

This effectively shifts the focus of strategic analysis from the industry to the company itself. Porter (1985) envisages every firm as a collection of activities that are performed to design, produce and market, deliver, and support its product. Hence an organization may develop competitive advantage through strategies formulated in any of these areas

which ultimately impacts on performance. The resources of an organization have generally been quite loosely defined, to the extent of including everything internal to the organization. Barney (1986) lists all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. as resources.

This being the accepted position, it is important to determine which resources are more strategically important than others. Barney (1991) has put forward a popular checklist for this. He identified the following as the key characteristics for a resource to be strategically important: the first is, Valuable, which denotes the significance of the value of the resource in relation to the operational process, as there is no need having a resource if it does not deliver or add value to the organization. The second is, Rare, resources that are owned by a large number of organizations cannot confer competitive advantage, as they cannot deliver a unique strategy vis-à-vis competing firms.

The third is, Inimitable, resources can only be sources of sustained competitive advantage if other organizations that do not possess these resources cannot obtain them and the fourth is, Non-substitutable, and there must be no strategically equivalent valuable resources that are themselves neither rare nor inimitable. While resources can be purchased, it is generally argued that to achieve a strategic advantage from a resource it should be developed internally. Dierickx and Cool, (1989) agree with this assertion stating that “deployment of such assets does not entail a sustainable competitive advantage, precisely because they are freely tradable

### **2.3 Organization’s Capabilities and Competitive Advantage**

The achievement of any of the business objectives by an organization is dependent on its strengths and weaknesses. This has to do with the resources each organization has or can access and the effectiveness of the management of those resources towards achieving and delivering the desired objective. The performance of an organization may then be equated to the resources that it controls and the strategies which are developed around them. According to Penross (1959) in the theory of the growth of a firm, competitive advantage

is achieved and maintained by developing strategies that rely on the resources owned by an organization. Resource-based strategy is the approach that concentrates on the individuality of each organization, the important differences between each organization and its competitors. According to this approach every organization is unique. And it is on the peculiarities that make each organization unique that sustainable competitive advantages can be based. Being aware of, and then improving and protecting these unique resources, and managing them more effectively, reinforces the organizations strengths and ameliorates the weaknesses and thereby improves the competitive position and performance.

Andrews (1968) and Ansoff (1965) found out that most of the researchers since the 1960's have used a single organizing framework to structure much of the resource based view of strategy research. Most research on sources of sustained competitive advantage has focused on using the SWOT analysis by either isolating a firm's opportunities and threats, describing its strengths and weaknesses, Porter (1987) and Ansoff (1965) or analyzing how these are matched to choose strategies Penross (1959) and Hofer and Schendel (1978). This in effect has led the researchers considering both the internal and external environments with respect to the organizational operations in order to identify factors that affect strategy and performance.

There is little doubt that this approach has been very fertile in clarifying the understanding of the impact of a firm's environment on performance. Wernerfelt (1989). Many authors however have pointed out the importance of the Resource-based View (RBV) in clarifying the relationship between the type of resources firms have and their performance. They further link strategies as related to the resources with the performance of the organizations.

The RBV argues that the resources owned by an organization include, a group which enables the organization to achieve competitive advantage, and another group which leads to superior long term performance, Barney (1991), Grant (1991), Penross, (1959). When resources owned by an organization are valuable and rare and benefits from these resources can be appropriated by the controlling firm, this helps to provide it with

temporary competitive advantage. That advantage can be sustained over longer time periods to the extent that the organization is able to protect against resource imitation, transfer, or substitution. The strategies employed by the organization will thus determine its performance relative to other organizations in the same or similar operating conditions. Hence it is important for the organization to effectively understand the particular resources that lead to competitive advantage.

Researchers have used a variety of different terms to talk about a firm's resources and how strategy links them to performance. This includes : (i) competencies, through which Prahalad and Hamel (1990), advocate for focusing on core competencies, to create unique integrated systems that reinforce fit, in the organizations diverse production and technology skills. (ii) Skills, Grant (1991) uses and describes strategy as the match an organization makes between its internal resources and skills, and the opportunities and risks created by its external environment. (iii) Strategic assets, these are the assets that are key to the differentiation of the organization as observed by, Amit and Schoemaker, (1993); Ross, Beath, and Goodhue,(1996) and (iv) stocks, which Capron and Hulland (1999) recommend should be optimal at all times to avoid stock outs but also not to tie a lot of capital.

The resources owned by an organization are the main drivers to deliver performance. Researchers consider resources in two broad categories as anything tangible or intangible the organization can use. The processes within the organization lead to producing, and/or offering its products (goods or services) to a market after optimally utilizing the resources. Besides resources, researchers also give a special emphasis to the organization's capabilities, which have a direct relationship to performance.

Capabilities may be considered as repeatable patterns of actions in the use of resources to create, produce, and/or offer products to a market. Capabilities can include skills, such as technical or managerial ability, or processes, such as systems development or integration. Capron and Hulland (1999), Amit and Schoemaker, (1993) see capabilities as the means of transforming inputs into outputs of greater worth by organizations in their pursuit to



gain greater performance. According to Barney (1991), the RBV rests on two fundamental assumptions. The first assumption is that, organizations have productive resources and different organizations possess different resources. This is the assumption of firm resource heterogeneity. The second assumption is that some of these resources are either very costly to copy or inelastic in supply. This is the assumption of resource immobility.

Olavarrieta and Ellinger (1997) identify several logistics distinctive capabilities which determine a sustained competitive advantage, namely: team work capability, skills to manage relationships with suppliers, technological assets and competences of developing new products and services. In this sense, it is essential to develop strategies that use such resources and capabilities which assure the organization a larger competitive advantage and performance. In the next section of this paper a review of the RBV literature is presented. The knowledge gaps is discussed in the third section and, finally, in the fourth section is proposed a conceptual framework for the RBV.

## Section 3

### Resource Based View and Sustained Competitive Advantage

#### 3.1 Introduction

The most salient characteristic of the RBV is the focus and importance it attaches to the internal environment of the organization. It reinforces the strengths within the organization and how this can create a competitive edge over competition, while reducing the extent of the impact that weaknesses within the organization could give competitors an edge.

This approach is rather linked to the pioneering work of Penross (1959) than any other. Recently there has been a reinforced interest in the role of the resources within an organization to provide a firm foundation for organizational strategy, Grant (1991), Miller and Shamsie, (1996). This interest reflects some dissatisfaction with the static, equilibrium framework of industrial organization economics, where the focus was in the relationship between the strategy and the external environment, Grant (1991).

Advances have occurred on different strategic levels which have contributed to what has been termed RBV. Basically, RBV describes an organization in terms of the resources which it integrates. Penross, (1959) accentuates the condition of an organization should not just be a unit, but also a group of resources. Frequently, the term resource is limited to those attributes that enhance efficiency and effectiveness of the firm, Wernerfelt (1989), Miller and Shamsie (1996) state that resources should have some capability to generate profits or to avoid losses.

In propagating the profit component of resources, it is noteworthy to mention that the hierarchy of the resources in terms of their net impact on the profit made by the firm differs. Some of the resources lead to the development and implementation of strategies which enhance the contribution towards the bottom line of the organization more than others. Generally, when a resource is readily available it will reduce the organization's competitive advantage.

### 3.2 Impact of Resources on Strategy

For, an organization to achieve high levels of performance and a sustained competitive advantage, it has to acquire heterogeneous resources which are difficult to create, to substitute or to imitate by other firms. According to Penross (1959), Wernerfelt (1989), and Rumelt (1991), an organization is a compilation of productive, tangible and intangible resources. Rugman and Verbeke (2002) see the main contribution of the resource-based view of strategic management as perhaps its ability to bring together several strands of research in economics, industrial organization, organization science, and strategy itself.

Awino; Wandera; Imaita, and K' Obonyo (2009) in their paper on implementation of differentiation strategies observed that many organizations were focusing on becoming more competitive, by launching competitive strategies that give them an edge over others. Awino et. Al (2009) concurs with Rugman and Verbeke (2002);

'This calls for a strategic fit of an organization's core competence levels, technology, leadership styles, markets, culture, people, and environmental influences, which is an emerging paradigm in the study of strategic management,'  
Awino et. Al (2009 pg 1)

In spite of a very substantial number of high-quality studies adopting this perspective and being published in top tier academic journals, the field can still be considered as lacking maturity according to Priem and Butler (2001a, 2001b). Even the exact definitions of key concepts, such as resources, competences, core competences, capabilities, and dynamic capabilities, have not been agreed upon or remain ambiguous and controversial, Rugman and Verbeke (2002).

Nevertheless, there is a widespread consensus that the resource-based view has been instrumental in improving the legitimacy of the strategic management field as perceived by scholars in other, more conventional disciplines, including mainstream economics and organization science. Modern resource-based thinking builds upon both a descriptive and

a normative component. From a descriptive perspective, the focus is on the distinctive resource profile of each organization and the processes, both at the organization and industry level that lead to specific new resource combinations and induce or reinforce heterogeneity among organizations. As regards prescription, the value of the resource based field to practitioners' results from its emphasis on the purposive creation, through organization-level investments in resources and capabilities, Rumelt, (1984). These constitute the analogue of entry barriers at the industry level and mobility barriers at the industry group level, Mahoney and Pandian, (1992).

The prescriptive building block in most of the post-1980 academic work on the resource based approach to strategic management has been found to share, at least implicitly, the following four characteristics: (i) The organization's ultimate objective in a resource based approach is to achieve sustained, above normal returns, as compared to rivals. (ii) A set of resources, not equally available to all organizations, and their combination into competences and capabilities, are a precondition for sustained superior returns. (iii) Competences and capabilities lead to sustained superior returns, to the extent that they are organization specific (i.e., imperfectly mobile), valuable to customers, non substitutable and difficult to imitate.

The heterogeneity itself among organizations, in terms of competences and capabilities, can be induced or reinforced (i.e., made endogenous) in two ways: first, through a 'process of Shumpeterian competition, path dependencies, first mover advantages, irreversible commitments and complementary or co-specialized resources.' This is the focus of modern disequilibrium approaches in the resource-based field, Rugman and Verbeke (2002).

The second way is as a result of 'isolating mechanisms and uncertain imitability,' whereby intra industry differences in performance among firms can be sustained over time. Mahoney and Pandian. (1992). It is especially this second source of heterogeneity that is critical as the basis for strategy prescription. (iv) From a dynamic perspective, innovations, especially in terms of new resource combinations, can substantially

contribute to sustainable superior returns. In operational terms, the main role of the resource-based view, within the field of strategy, as recognized by most scholars in the field, is its complementarity to the strategic positioning school, which built upon the Bain–Mason–Scherer structure–conduct–performance paradigm and culminated in Michael Porter’s (1980) book on competitive strategy, Scherer and Ross, (1990).

### **3.3 Resource based view and Internal Analysis of the Organization**

Expressed in the simplest terms and building upon Andrews’ (1971) seminal work on the concept of corporate strategy, the resource-based view can be seen as an excellent starting point for analysis of the relative strengths and weaknesses of organizations (thereby largely treating the demand side as exogenous), whereas a strategic positioning approach is probably the cornerstone of any opportunities and threats analysis. It should be emphasized that, even within the resource-based field, there is substantial variation in the views of scholars on the macro-level economic implications of the firm-level pursuit of rents. It is with this perspective that, Mahoney and Pandian, (1992) found that the perceived nature of these rents, in terms of their efficiency-based or monopolistic character, is critical to the performance of the organization.

Other, complementary direct contributions are respectively the ‘Penrose effect,’ i.e., the limits to the firm’s growth rate as a result of managerial constraints, and the importance of behavioral elements and learning in the firm’s growth processes. This agrees well with the differentiation strategy as observed by Awino et al (2000). The Penrose effect has been widely debated in the economics literature as noted by Marris, (1964); Uzawa, (1969); Rubin, (1973); and Slater, (1980). Organizations create and gain competitive advantage through different growth processes, especially the discovery of productive opportunities through a dynamic learning process but guided by path dependencies. Burgelman (1983) and McGee and Thomas’s (1986) creative perspective on strategic groups provide an insight on the performance enhancement of an organization through internal corporate venturing and the process of strategy formation

According to Amit and Schoemaker (1993), using the RBV theory it may be seen that, under imperfection of markets there exists a diversity of organizations and a variation in the specialization degrees, which results in a limited transfer of resources depending on the type, magnitude and different nature. Therefore, the factors that impact on the performance of the organizations leading to improved performance can be found within the internal environment of the organizations, that is, firms with resources and superior capabilities will build up a basis for gaining and sustaining competitive advantage. Peteraf (1993).

### **3.4 Resource based view and Capabilities**

When referring to the RBV, several authors consider it more in a strategic context, presenting resources and capabilities as essential to gaining a sustained competitive advantage and hence superior performance, Grant (1991), Barney (1991), Jacobsen (1998), Lippman, and Rumelt (1982). Rumelt (1991), Day (1994), Day (1988), Amit (1993). Consequently, this leads to a superior performance.

However, these resources must have some characteristics as has been shown earlier, namely: (i) specialized, in which the internal skills within the business play a leading role in creating strategies which give a competitive advantage for the organization, Barney (1986), Dierickx, and Cool (1990), Amit, and Schoemaker (1993). (ii) Scarce, Barney (1991), Day (1994), Barney (1986), Dierickx, and Cool (1990), Amit, and Schoemaker (1993), Skjoett-Larsen, (2000). (iii) Durable, Grant (1991). (iv) Hard to trade Barney (1986), Dierickx, and Cool (1990), Amit (1993), Skjoett-Larsen, (2000). (v) Costly to copy Barney (1991); Amit (1993); and (vi) valuable, Barney (1991), Day (1994); Skjoett-Larsen, (2000). Wernerfelt (1989) and Porter (1985) adopted RBV from a strategic point of view considering a resource as a strength that firms can use to formulate and to implement their strategies. The resources and capabilities of the firm are the main competences for formulating strategy and hence assure better performance for the organization, Grant (1991).

Some authors reckon that a resource is, by itself, insufficient for obtaining a sustained competitive advantage and a high performance for the organization, Day (1994); Barney (1991); Grant (1991); Chandler, and Hanks (1994). According to these authors, attaining a competitive advantage is possible only if the organizations are able to transform the resources into capabilities, Mahoney and Pandian, (1992). Penrose (1959) concludes that the firms reach a superior performance, not because they have more or better resources, but also due to their distinctive competences.

Despite the wide diversity of resources, it is possible to classify resources into the following categories: (i) Tangible and intangible resources, Hall (1997); Amit (1993); Penrose (1959) and Bogaert, Maertens, and Van Cauwenbergh, (1994). (ii) Strategic resources Day (1994); Day and Wensley (1988); (iii) Human resources Greene, Brush, and Brown (1997).; (iv) Social resources Greene, Brush and Brown (1997); (v) Organizational resources Greene, Brush and Brown (1997); (vi) Technological resources Greene, Brush and Brown (1997); (vii) Location resources Greene, Brush, and Brown (1997); (viii) Factor conditions Olavarrieta, S. and Ellinger, (1997); ; (ix) Assets Day (1994); Barney (1991); Amit, and Schoemaker (1993); (x) Capabilities Day (1994); Barney (1991).

Regarding the capabilities, some authors consider them, not only as the organization's resources but also as competences, Penrose (1959); Hitt, and Ireland, (1986); Leonard-Barton (1992); Pavitt, (1991). Itami considers capabilities as invisible assets (1987). The concept of capabilities is frequently used to define a group of individual qualifications, assets and accumulated knowledge, exercised coordinate activities and to use their resources Schulze, (1994). According to Grant (1991) there is a key distinction between resources and capabilities.

Resources are inputs into the production process – they are the basic units of analysis. The individual resources of the firm include items of capital equipment, intellectual assets, patents, brand names, and so on while a capability is the capacity for a team of resources to perform some task or activity. While resources are the source of the firm's

capabilities, capabilities are the main source of its competitive advantage. For Barney (1991) these distinctions can be drawn in theory, but quite confusing in practice. The capabilities are many times developed either in functional areas or in combination of physical, humans or technological resources controlled by the organization, Amit, and Schoemaker, (1993).

Capabilities together with the resources are the core competences on the organization's strategy formulation and therefore constitute the organization's identity, Grant (1991). In fact, as referred to by Bogaert, *et al.* (1994), the more capability is used, the more it can be refined and made rare and non imitable. This characteristic reflects the dynamic perspective associated to the capabilities, Nelson (1991).

In the dynamic perspective, capabilities approach is a theoretical stream inside of the RBV. This theory considers that, on one side, the firms are constantly creating new combinations of capabilities and, on the other hand; the market competitors are continually improving their competences or imitating the most qualified competences from other firms.

This approach puts emphasis on internal processes, assets, market position as restricting factors not only for the capability to react but also the management capability to coordinate internal competences of the organization, Teece and Pisano (1994). In addition, some authors Granstrand, Patel, and Pavitt, (1997) give special attention to technological competences as an important factor to influence, not only the sales' growth, but also the businesses' diversification and performance.

According to Grant (1991) the managers must select an appropriate strategy in order to use more effectively the resources and the capabilities of the firms. In order to determine the extent of the resources to use together with the central capabilities identified in developing strategy to create a competitive advantage, Barney (1991) developed the VRIO model, which has been discussed earlier on, structured in a series of four questions to be asked about the business activities an organization engages in: (i) the question of



Values; (ii) the question of Rarity; (iii) the question of Imitability; and (iv) the question of Organization. The answers to these questions determine whether a particular resource for the organization or capability is a strength or weakness. The VRIO model describes ways that firms can expect to be successful.

The RBV has also been used in the information and communication technology field. This theory provides a valuable way of information systems' that make researchers to think about how information and communication systems relates to the strategy and performance of the organization. In particular, the theory provides an important framework to evaluate the strategic value of information and communication technology resources.

The RBV could also be applied to the logistical context. Novack, Rinehart and Wells (1992) noted that, the logistics, through their distinctive capabilities, is an instrument of creation of time, place, form and ownership inside the organizations. These capabilities are valuable, scarce and difficult to imitate according to, Olavarrieta and Ellinger, (1997) and, consequently, a source for creating a competitive advantage Carvalho and Dias (2000); Skjoett-Larsen (2000).

Competitive value of the resources can be enhanced or annulled by: (i) changes in the technology (ii) changes in the competitor's behaviour, or (iii) changes in the buyers' needs. According to Chandler and Hanks (1994) resources and capabilities create a satisfactory base for formulating competitive strategies and improving organization performance. An important factor that assures a long term competitive advantage is the sustainability of the organization's capabilities or their core competences, Aliouat (1996). Sustained capabilities are those that are not easy or quickly reproduced by the competitors and must form the base of the organization's strategy. These resources and capabilities are the key for the achievement of competitive advantage and performance and should be protected.

The performance of an organization is reduced if its resources are not optimally used. High performance is achieved when activities and resources in the transformation process add value to the produced goods. Since performance is the productive capability of the resources consumed in the organizations, it can be measured for each production resource separately, which is single factor productivity or for all resources jointly, which is total factor productivity. Productivity is a relative concept as it cannot be said to increase or decrease unless a comparison is made, either of variations from a "standard" at a certain point in time or of changes over time.

Various studies have shown that a number of factors affect business performance leading to low productivity. When attempting to determine the effect of certain factors such as organization structure, employee management policies, and investment decisions on business performance, several researchers have argued that measures of productivity may be a better indicator of performance. The issue of organization performance is of great concern for managers and economists alike.

Yet in spite of hundreds of studies examining productivity at the industry and national economy level, there is only limited insight into the dynamics of production and the specific factors that actually improve productivity at the firm level. Researchers have long suggested that a fundamental problem may lie with the level of aggregation inherent in these macroeconomic studies.

Thus, while the measurement of productivity with aggregate data is perhaps important for broad policy decisions, such analysis may be inappropriate for the small-business manager or owner who is charged with day-to-day management and the production of goods or services. In addition, understanding the dynamics of productivity at the plant level and linking it with organizational performance also provides greater insight into the specific components that drive the factors of production at the macro level. This lends credence to determining the strategic resources that affect production in an organization. Production may be defined as the process of transforming resources (inputs) into products (outputs) that satisfy human wants. Thus, by definition productivity is an outgrowth of

production. Traditionally, there are two main classes of resource inputs which are, human and nonhuman. Human resource inputs include labour and management, while nonhuman resource inputs comprise land and other natural resources, and manufactured tangible capital resources such as equipment, structures, and inventory. The ratio of real production to the associated total factor of these inputs yields a measure of total productivity. It is possible to determine partial productivity which is the ratio of one of these resource inputs, such as labour or capital, to the total output. Productivity studies generally focus on measures of labour productivity.

Whereas studies of organizational performance aggregated at the industry or national economy level usually examine the relationships and trade-offs between labour and capital inputs, examining organizational performance at the plant level allows for a more full investigation of additional variables controlled by management. For instance, labour inputs for macro productivity studies have been historically measured as input hours or in other words, human brawn. However, the quality of these inputs and the way this quality is optimized through human capital, such as training, job specialization, reorganization, corporate experience, and procedural codification, can also be substituted for both human brawn and capital inputs. Thus the human capital calls for special and specific management to determine its strategic influence on organizational performance.

## **Section4**

### **Knowledge Gaps**

This study aims to link the context of the organization and its resources towards sustained competitive advantage. The study will also explore to fill the gap in literature on sustained competitive advantage when organizations strive to exploit the resources which they know are better than those of competitors, persuasive to the customer and available from the range of strengths contained inside the organization. This will augment the work done by Dierickx and cool (1989). Since business environments and marketplaces are always changing, the challenge for strategists is to maintain the firm's distinctive competence.

An organization's advantage comes largely from the fact that it has differentiated itself from its competition. It follows that if the environment changes such that numerous rivals have obtained competencies identical to those characterizing a particular organization; the firm is in a very poor position and would do well to reconsider its strategy. This study aims at following up the work done by Barney (1986) in determining the context of strategic resources and sustained competitive advantage, as the most successful organizations will be those that are able to locate and use distinctive competencies.

Table 1 below gives some of the empirical studies that have been done on resources and their relationship with sustained competitive advantage. During the 1980s and early 1990s, strategists like Porter explored and emphasized the need to identify profitable markets and then find competitive advantage by industry solutions in those markets using the generic strategies. Around the same time other strategists were puzzled by the different long term profit performance of companies in the same industry. They argued that if industry was the main determinant of profits, then all companies in an industry should have similar levels of profitability.

**Table1: Pertinent Literature and Knowledge Gaps**

Author and Year	Focus of Study	Findings	Gaps	Contribution of this Study
<b>Wernerfelt (1984)</b>	Relationship between critical resources and Corporate Strategy	Companies were seen as a collection of resources, rather than holding market positions in the development of strategy	There was no link between critical resource and performance of Organizations	Link the critical resources to corporate strategy and performance
<b>Barney (1986)</b>	Firm resources and sustained competitive advantage	Competitive market imperfections, market entry barriers and other constraints require differing company resources	The immobility of resources for the development of successful strategy was not addressed	Identify the resources in an organization that lead to successful strategy
<b>Rumelt (1984)</b>	Strategy theory of the organization	Importance of resources in strategy development	Required to have ascertained the Impact of strategic resources on strategy development	Link Importance of strategic resources on strategy development and organization performance
<b>Prahalad and Hamel (1990)</b>	Core competencies of the corporation	Corporations rely on internal core competencies for competitive advantage	Did not link the context of the core competencies on competitive advantage	Show the contextual relationship of core competencies of strategic resources and performance
<b>Peteraf (1990)</b>	Competitive advantage	Identified four distinguishing features of resources	Did not link the features to critical resources	Link the strategic resources to performance
<b>Dierickx and cool ( 1989)</b>	Asset stock accumulation and sustainability of Competitive advantage	Strategic assets are developed internally not acquired	Did not specify the time it takes to develop and the impact of competitor information on the internal assets	Link internal assets to information availability and organizational performance
<b>Amit and Shoemaker (1993)</b>	Strategic resources and organizational rent	Explored processes through which resources are developed	Did not link the process to internal competencies	Link processes of strategic resource development to performance of organization
<b>Teece and Pisano (1994)</b>	The dynamic capabilities of firms	Explored the changing nature of resources	Did not link the change in resources to changes in competitive advantage	Highlight the relevance of change in resources to the environment and performance

## Section 5

### Conceptual Framework

It is important to distinguish between resources and the capabilities of the firm: Resources are the productive assets owned by the firm; capabilities are what the firm can do. Individual resources do not confer competitive advantage, they must work together to create organizational capability. It is capability that is the essence of superior performance.

The ability of a resource to lead to a sustainable competitive advantage depends on the determining the following: (i) Does the resource have value in the market to allow the firm to exploit opportunities and neutralize threats. (ii) is the resource unique or is it owned by many organizations? (iii) is there a readily available substitute for the resource as competing organizations may not have the exact resource that will help them accomplish the same results. Positive answers to these issues may lead to the conclusion that the resource has the potential to lead to a competitive advantage for the organization.

However, the potential for competitive advantage may not be realized unless it is determined that: (i) Organizational systems exist that allow the realization of the potential and the organization must be ready to utilize the opportunity. (ii) The organization is aware and is utilizing the advantage. This is one of the great steps that may lead to differentiation between successful and unsuccessful organizations. This will be the main thrust of the study as an organization may have the potential that leads to a competitive advantage but is not aware. For instance an organization may have employees that have great potential in an area but the organization does not know.

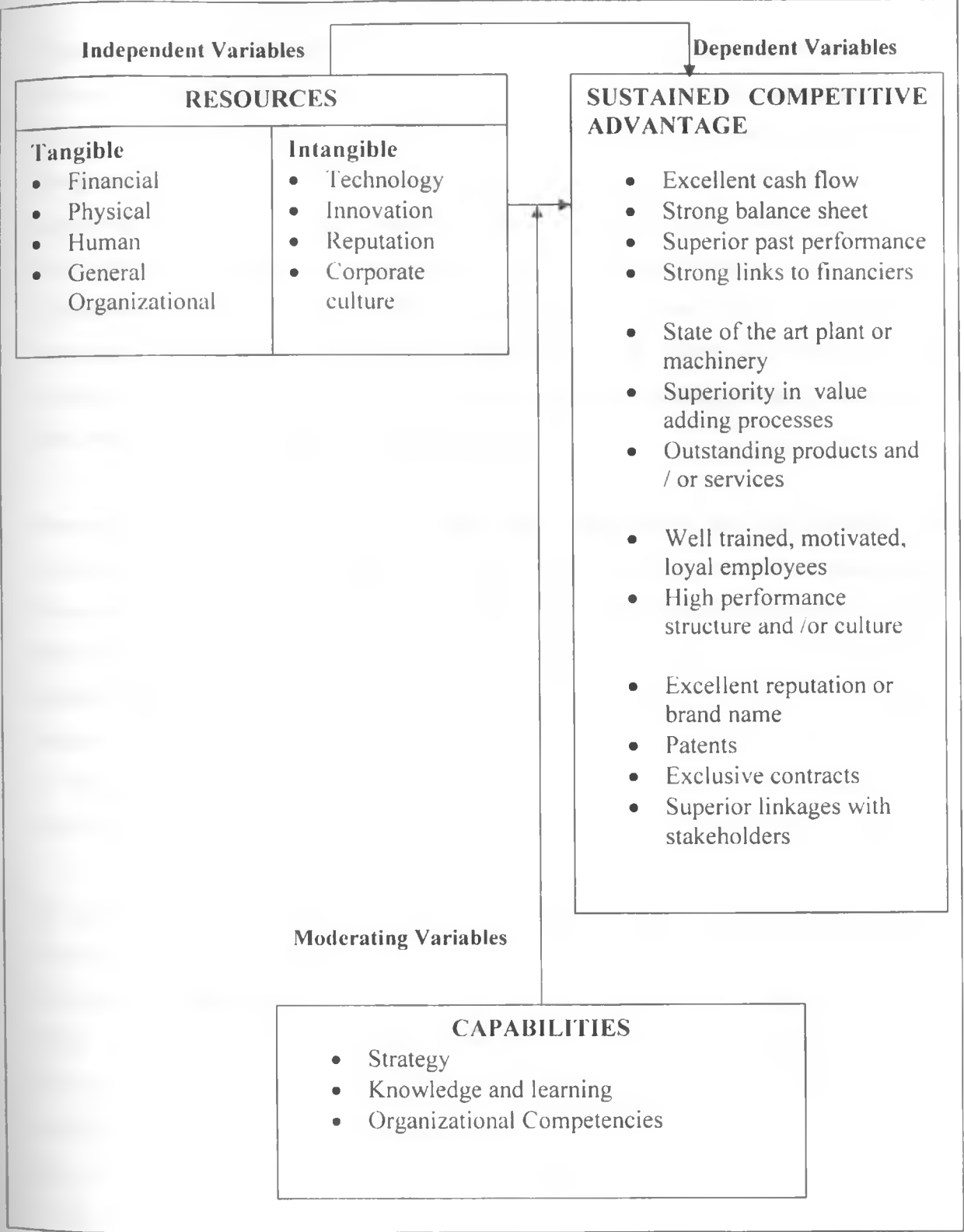
The final step for sustainability of the competitive advantage to the organization is to determine if the resource is difficult or costly to imitate. The resources will lead to a sustainable competitive advantage if they are difficult or costly to imitate. To take a wider view of a firm's resources it is helpful to identify two principal types of resource: tangible and intangible, resources. Tangible resources include; Financial, Physical, Human and general Organizational assets, while intangible resources include:

technology, innovation, reputation and corporate culture. To create the competitive advantage from the resources an organization owns, two further key questions have to be considered. a) what opportunities exist over economizing their use and b) what are the possibilities for employing existing assets more profitably?

Resources are not productive on their own. To perform a task, a team of resources must work together. An organizational capability is a “firm’s capacity to deploy resources for a desired end result.” The conceptual framework, figure 1, considers the capabilities that can provide a basis for competitive advantage. These are the capabilities that are fundamental to a firm’s strategy and performance that make a disproportionate contribution to ultimate customer value, or to the efficiency with which that value is delivered, and provide a basis for entering new markets.

Establishing competitive advantage involves formulating and implementing a strategy that exploits the uniqueness of a firm’s portfolio of resources and capabilities. The conceptual framework, figure 1, highlights the link between resources, capabilities and sustained competitive advantage.

Figure 1: Conceptual Framework





## **Section 6**

### **Conclusion**

Organizations often have to make investment decisions which involve determining the setting up of new business. If too many firms enter the same business, and commit high levels of funding, the return on investment may be mediocre at best and this would be a disappointing experience. This does not mean that organizations should not pursue such opportunities. It does, however, imply the following: on an even playing field, against well managed competitors, organizations can not expect superior performance. Organizations need to look for tilted playing fields, areas where they have competitive advantage. Organizations have the advantage in markets where their resources are superior to those of the competition. Then they can achieve a strong market position and performance at a lower cost than their competitors.

Strategy formulation consists of identification, deployment and development of resources. Only very few resources are critical as they can differentiate the organization from competition. To identify a critical resource, Organizations need to know: (i) Among the resources, which are unique? (ii) Does any department perform better than their pay checks would lead one to expect? And (iii), Does any supplier or buyer have major resources tied to the organization? This information is useful in strategy formulation as it shows the areas where the organization can have a competitive advantage when formulating strategy which in turn leads to superior performance than the competition.

In order to identify the total competitive advantage an organization can gain from a resource, it is important to have them classified in terms of capacity in the following categories: (i) fixed assets, resources with long run fixed capacity. This will include: Plant and equipment, mining rights, employees with specific training, firm specific investments by suppliers or distributors. (ii) Blue prints, resources with practically unlimited capacity. These include patents, brand names, and reputations. These resources play a major role in strategy formulation as they convey a considerable advantage over a range of markets and availability is not of concern as their capacity is not limited. (iii) Cultures, these are resources with limited short run but unlimited long run capacity. This

involves the team effects within the organization. Working in groups especially of specialists which affect several areas of the organization develops a set of routines over time where members of the group learn and will be unique in the way they approach issues. This makes the teams become a critical resource, as no single member can achieve the same level of performance in similar group in another company.

Categorizing resources enables the organization to formulate strategies that would give maximum returns and optimal performance from the use of the resource. A resource can be used (i) Independently, this category contains categories where a critical resource can be used alone or in connection with other non critical resources (ii) in tandem with existing resources, the relevant co specialized resource may exist but owned by another firm and. (iii) In situations where complementary and specific resources need to be created. Hence strategic management can enhance the competitive advantage of an organization and lead to its optimal performance within the operating, industry or external environment.

From the literature review, it was observed that there is a gap in the relationship between whether organizations realize the potential of strategic resources that they own and how this information is utilized to gain sustained competitive advantage for the organization. This is one of the great steps that may lead to differentiation between successful and unsuccessful organizations. This will be the main thrust of the study to bridge this gap.

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