Resource-based view and Dynamic capabilities

Key criticisms and limitations

Agenda

- Understanding of criticisms and limitations of resource based and dynamic capabilities (inside out) perspective

Dynamic Capabilities Criticisms

Tautological (saying the same thing in different words/self defining statement)

- Cepeda and Vera (2007, 427) ‘if the firm has a dynamic capability, it must perform well, and if the firm is performing well, it should have a dynamic capability’
- Similar to the argument that all great firms have great leaders – if the leader is great, the firms performs well, and, if the firm is performing well the leader must be great. All great companies must have great leaders and all companies that perform well over time must have dynamic capabilities

AMBROSINI, V. & BOWMAN, C. 2009. What are dynamic capabilities and are they a useful construct in strategic management?
International Journal of Management Reviews, 11, 29-49.

Dynamic Capabilities Criticisms

Only an indirect effect:

- Bowman and Ambrosini (2003), following the RBV, suggest that the VRIN resource base is directly linked to rents (financial returns), but as dynamic capabilities are one step removed from rent generation, their effect on competitive advantage is only indirect
- Eisenhardt and Martin (2000, 1106) also argue that competitive advantage lies in the resource configurations that dynamic capabilities create, not in the dynamic capabilities themselves – and that many firms will have similar dynamic capabilities
- Dynamic capabilities may change the resource base, but this renewal may not be necessarily valuable – it may lead to failure rather than sustainable advantage

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Dynamic Capabilities Criticisms

Dynamic Capabilities are Costly to Firms and can lead to costly mistakes:

- Pablo *et al*. (2007) suggest that dynamic capabilities involve substantial cognitive, managerial and operational costs and that deploying dynamic capabilities requires high levels of time and energy from committed managers.
- Further, if managers misperceive the situation of the firm (poor sensing), they may trigger inappropriate dynamic capabilities. Thus, there is the cost of the dynamic capability e.g. sensing costs for market research, R&D etc. and of the resulting action e.g. unsuccessful product launch, division closure etc

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Dynamic Capabilities Criticisms

- There are limits to the extent of the importance of such capabilities. They are vulnerable to threats of erosion, substitution, and above all to being superseded by a higher-order capability of the 'learning to learn' variety. This suggests that there can be an infinite regress in the explanation for, and prediction of, sustainable competitive advantage.
- According to Collis (1994), dynamic capabilities as meta-capabilities cannot be the ultimate source of sustainable competitiv e advantage because the pursuit of the ultimate source of competitive advantage leads to an infinite regres s.
  - *"The capability that wins tomorrow is the capability to develop the capability to develop the capability that innovates faster (or better), and so on"* (Collis, 1994: 148).
  - An **infinite regress** is a series of appropriately related elements with a first member but no last member, where each element leads to or generates the next in some sense.
  - David J. Collis, 1994. "Research Note: How Valuable are Organizational Capabilities?," Strategic Management Journal, Wiley Blackwell, vol. 15(S1), pages 143-152, December.

Dynamic Capabilities Criticisms

- **Helfat and Winter (2011) stated that the line between ordinary (operational) capabilities and dynamic capabilities is “blurry” from an epistemological point of view. Therefore, no firm necessarily requires dynamic capabilities to gain sustainable competitive advantage ; ordinary capabilities would be sufficient.**

- HELFAT, CONSTANCE & Winter, Sidney. (2011). Untangling Dynamic and Operational Capabilities: Strategy for the (N)Ever-Changing World. Strategic Management Journal. 32. 1243-1250. 10.2307/41261789.

Dynamic Capabilities Criticisms

- According to Arend and Bromiley (2009), the dynamic capabilities viewdoes not only lacks a coherent theoretical foundation, but also has weak empirical support. They said, therefore: “we suspect researchers will be well, perhaps even better, served by other approaches to strategic change” (Arend and Bromiley, 2009: 87)

- Arend, Richard & Bromiley, Philip. (2009). Assessing the Dynamic Capabilities View: Spare Change, Everyone?. Strategic Organization. 7. 10.1177/1476127008100132.

RBV Criticisms

- Static rather than over time
  - Based on current internal situation but little to say about the changing external environment (it is assumed to be homogenous?)
- The theory has limited prescriptive value
  - Diagnostic identification but little to say about what resources or capabilities are needed or missing

Further Reading: Priem, R L and Butler, J E (2001) 'Is the resource-based view a useful perspective for strategic managementresearch?',

Academy of Management Review, Vol 26, no 1, pp22-40

RBV Criticisms

- Treats the firm as a 'black box'
  - Identifies what capabilities a firm has but not "when", "where" and "how" they might be useful (Priem & Butler, 2001). What could e more 'black box' than causal ambiguity and social complexity?!!!
- 'Causal ambiguity'
  - Leaves little room for strategy - we don't know understand how a capability works (Peteraf, 1993) including how to avoid damaging it
- Tautological
  - Competitive advantage (having a valuable & rare differences) comes from having valuable and rare resources (Preim and Butler, 2001)
  - Basing strategy on resources is not and can never be strategic, strategy is about RELATIVE competitive advantage in markets/industries (Porter, 1996)

- See module handbook for sources of reference

What matters? The firm or the industry?

- The link between the influence of industry factors and the determination of a firm's profitability and the scope of its decision making has been investigated in many empirical studies over the last decades – **with arying results** (e.g. Schmalensee, 1985, McGahan and Porter, 1997, Bowman and Helfat, 2001).
- Porter argues based on S-C-P (Structure ,Conduct – Performance) that industry differences matter more than firm
- Rumelt (1991) argues that firm-specific factors are more important to the profitability of a business than industry factors
- According to Barney & Clark (2007), market power explanations apply in oligopoly or monopoly. Efficiency, (firm resources), explanations apply when levels of competition are high or entry barriers low/non existent

References in your module handbook

Michael Porter's 1996 Critique: What is Strategy?

- Strategy is about more than being more efficient or more effective – that is operations
- Competing on resources is NOT strategic, RELATIVE competitive position is crucial. Position relative (better or worse) to competitors
- RBV does not acknowledge RELATIVE competitive positon
- The only truly strategic activity is to achieve a unique and advantageous competitive position, sustained through barriers to entry (mobility barriers)

https://www.youtube.com/watch?v=ibrxIP0H84M
1 min 47 seconds

PORTER, M. E. 1996. What is strategy? *Harvard Business Review,* November- December, 61-78.

Porter, SCP, Industrial Organisation Economics, Neo-classical view

- There is nothing speical about firm resources, based on neo-classical economics Porter assumes that efficiency gains can be easily copied through diffusion of best practice - the final outcome is the same for all players

Institutional Theorists argue that being the same is more important than being different

◦*Competitive strategy is **about being different.** It means deliberately choosing a different set of activities to deliver a unique mix of value.*

◦ Michael Porter

◦*For sustained advantage firm resources must be heterogeneous (**different to other firms**).*

◦ Jay Barney

http://ericaduran.co/avoid-the-sea-of-sameness/

Institutional Perspective

- In contrast to ideas about being unique and different this perspective argues that organisations in the same environment tend to adopt similar strategies
- Organisations that want to be viewed as ‘legitimate’ tend to conform to these environmental influences
- Too much difference, it is argued, can lead to organisations that lack legitimacy. There is value in being the same as everyone else.

picture: http://thebullbustercafe.com/i-have-to-conform-to-fit-in/

source: Mintzberg, Ahlstrand and Lampel (2009) ‘Strategy Safari’ Edition 2, FT Prentice Hall, Chapter 10

Conformity can be driven by:

1. Similar external obligatory (coercive) pressures e.g. universities all operating under the same funding
2. Through mimicry (mimetic) pressures to conform to best practice e.g. the iPhone screen
3. Through similar accepted professional norms (normative) and practices e.g. all accountants or lawyers or management consultants trained in same way

DiMaggio, P. J., and Powell, W. W. (1983).
"The Iron Cage Revisited: Institutional Isomorphism and Collective Rationality in Organizational Fields." American Sociological Review, 48(2), 147-160.

Institutional theory and a positioning school paradox

- Porter (1980) argues for *difference* through cost leadership, differentiation and niche, for competitive success. Environment as ‘external’

- Meyer & Rowan (1977) argues for an institutional theory perspective, which suggests firms must be *similar* for success in a particular institutional environment. Organization as deeply ‘embedded’ within the environmental context

No easy solutions and not an easy module...we know!

- Today we have covered two models that you might apply to your case organisation
  - VRIO (Resource Based View)
  - Sensing, Seizing and Reconfiguring (Dynamic Capabilities)
- It is hard to apply these models in practice – we know – that is one of the many limitations of them!
- Work together and help each other to generate insight