

# Do Resource Based View Spur Firm Performance? A Literature Review

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**Abstract:** The resource-based view of the firm (RBV) is one of the critical approach companies adopt to gain a corporate competitive advantage. The process or RBV theory suggests that firm resources are the sole purpose for sustained competitive advantage when firm resources are heterogeneous and immobile. Although the RBV theory remains as a critical tool from which to boost overall performance about expected outcomes in a company, it has also received several notable criticisms. The literature review explores the modern view of the RBV theory from several perspectives.

**Keywords:** Resource-based view, competitive advantage, sustained competitive advantage, Firm performance.

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## 1. INTRODUCTION

Achieving competitive advantage is one of the critical expectations for companies and organization in their bid to maintaining relevance within a given market. One of the essential approaches that companies adopt as part of their bid towards building a competitive advantage is the resource-based view (RBV) approach or theory. The theory, also described as the resource-advantage theory, was developed in the 1990s with the sole intention of ensuring that companies would use their resources as part of building a shift in paradigm with the focus being towards building strategic competitive advantage within a given market structure (Sims, Powell, & Vidgen, 2016). In this theory, companies tend to reflect on their strategic resources with the focus being towards determining their abilities to maintain positive performance. The approach also allows companies to weigh their resources with the focus being towards deciding their potential regarding achieving set out goals and objectives.

The adoption of the RBV theory as part of company performance can be seen from the perspective that it works towards enhancing the ability for companies to position themselves effectively. Hoskisson, Gambeta, Green, & Li (2018) argue that positioning is one of the critical elements that seek to define performance for companies considering that it acts as a guarantee that a company would be able to determine its market share. Usage of the RBV theory serves as a boost to positioning, as it creates that positive avenue from which companies can use their resources for the sole purpose of building their competitive advantage (Popadiuk, Rivera, & Bataglia, 2014). The outcome of this is that it introduces a new dynamic in which companies seek to define their objectives taking into account their resources, which tend to build capacity from which project positive performance.

## 2. REVIEW OF RESOURCE-BASED APPROACH

The resource-based approach capitalizes on resources of a firm as a critical element in determining the competitive advantage. The approach also emphasizes on the use of the resources of the firms to measure and demonstrate the level of performance experienced and expected with a company. The resource-based view adopts two significant assumptions that help in undertaking a proper analysis of the sources of competitive advantage within a given company (Day & Jean-Denis, 2016). Firstly, the approach undertakes the assumption regarding the heterogeneity of a company concerning the evaluation of the competitive advantage. The model considers that firms may be heterogeneous based on the number of resources they control within a given industry. This means that the competitive advantage of a company may be evaluated concerning the bundle of resources they control in industry. The second assumption entails the persistent of resource heterogeneity in the firm based on the resources used in the implementation of various strategies considering the funds may not be mobile within the firm.

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According to Syssner & Meijer (2017), the aspect the heterogeneity and uniqueness of the resources in a company is a significant element that increases the competitive advantage against the competitors within an industry. The issue of heterogeneity of resources in a company creates an argument regarding how the firms operate in a bid to ensure that they maintain their competitive advantage. In this case, the availability of competitive strategies in a firm is based on the heterogeneity and the availability of the resources. The research-based approach maintains that the firms have an individual capacity to increase the competitive advantage within an industry, which is necessary for improving the performance of the company (Barney & Mackey, 2016). Performance differences in one sector are crucial elements that require proper analysis because the performance differentials are viewed to be part of the firms' resources that are considered to have different levels of efficiency.

According to Chae, Olson, & Sheu (2014), performance differentials enable the firms to engage in activities that focus on delivering more significant benefits to the customers at a given cost. The firms capitalize on enhancing their performances on the industry by participating in the provision of quality products that meet the needs of the customers in a bid to increase the benefits accrued to the customers, which in turn increased the competitive advantage within the industry. In this case, the delivery of benefits to the customers does not take the assumption of the heterogeneity and the immobility of the resources in a given company. According to Swanson & Droege (2016), the resources of a firm must be rare and valuable to increase the demand for the product and make it challenging to have imitations thus increasing the aspect of uniqueness. The enhancement of the company's resources plays a critical role in enhancing the operations, which is an element that capitalizes on the increasing the market share and the competitive advantage of a company.

The scrutiny and assessment of the research-based approach play a critical role in addressing the vital issues that are presented in the analysis of the assumptions of the approach concerning the competitive advantage and the performance of a company (Rasool & Shah, 2015). The scrutiny of the approach provides an avenue for a discussion on the issues affecting the frameworks that are implemented in firms for effective performances and increase in the competitive advantage. The assessment offers a channel for discussing the dynamics presented in a firms competitive environment and identify critical issues that influence the approach on addressing essential elements regarding the performance of a firm in any given industry (Reddy & Rao, 2014). The main features of discussion in the resource-based view concerning enhancing the operations of a company involves the unit of analysis, the circularity of the research-based approach, and the exogenous nature of the value of the resources.

According to Portugal Ferreira, Ribeiro Serra, Kramer Costa, & Almeida (2016), the resource-based view does not overlook the element of an appropriate unit of analysis in making necessary considerations regarding the performance of a company. Majority of the critical factors mentioned in the RBV capitalizes on the aspect of an individual resource as an essential unit of analysis concerning studying the significant elements that relate to competitive advantage in a given industry. The most critical consideration in this factor entails the fact that the relevant resources of the company are sufficient and well-defined to ensure proper evaluation and definition of the unit of analysis in a company. Otolá, Ostraszewska, & Tylec (2013) maintain that there are strong relations of complementarity within the resources of a firm that helps to make proper clustering of the funds in a bid to understand how they interplay and fit in the system of the firm.

On the aspect of circularity of the research-based approach, the rare and valuable resources in a firm are critical sources of competitive advantage. Although the elements of rare and valuable resources have a significant criticism on their significance in increasing the competitive edge, there are proofs that the two aspect increases the profitability of the company, which is translated to the increase in the level of competitive advantage (Miemczyk, Howard, & Johnsen, 2016). Additionally, the aspect of the exogenous nature of the value of the resources focuses on the determination of the amount of the resources of a firm in a bid to determine the level of competitive advantage. An explanation of the amount of the resources of the company plays a critical role in defining the ability of the company to increase performance and engage in real operations, which translate to greater competitive advantage (Swanson & Droege, 2016).

### **3. THE PROCESS OF RESOURCES BASED VIEW**

The resource-based view theory incorporates several vital steps, which seek to ensure that companies are well positioned towards providing that they understand the value of having to use resources to their advantage (Kumari, Kasat, & Patil, 2017). In other words, this means that companies would be in a better position to define their performance based on their

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ability to adopt this process effectively. When reflecting on the value of the RBV theory, one of the critical aspects to consider is the process of RBV, which plays a crucial role in defining the expected levels of success. Kellermanns, Walter, Crook, Kemmerer, & Narayanan (2016) point out that the process of RBV highlights the step-by-step approaches that companies ought to take in their bid towards enhancing performance through this theory. Additionally, the process of RBV also works towards ensuring that the adoption of this particular theory remains sustainable for the companies.

The first step in the RBV process is the identification of strategic importance concerning resources and competencies in which a company seeks to engage in an evaluation of its resources to determine its skills. In this step, one of the key aspects to note is that companies seek to participate in an in-depth assessment of their resources, which would, in turn, play a critical role in highlighting their competencies. Szymaniec-Mlicka (2014) points out that the ability for a company to acquire more resources means that the company would focus much of its attention towards maintaining usefulness concerning building competencies. The long-term effect that this would have is that it would work towards defining performance for the companies involved with the focus being towards boosting expected outcomes.

The importance of the identification of resources and competencies is that it helps towards paving the way for an in-depth comparison in which a company would focus much of its attention towards evaluating itself based on its competitors. In most cases, companies tend to fail in their bid to use the resource-based approach in defining their performance due to lack of a clear-cut platform from which to compare themselves with their competitors (Kazlauskaitė, Autio, Gelbūda, & Šarapovas, 2015). In this step, it is clear that a company adopting usage of the RBV theory would be in a better position from which to establish its competitive advantage based on its idea of using resources and competencies. The second step, the focus lies on the idea of having to determine the relative strength of the resources concerning defining expected performance outcomes while focusing on the set-out goals.

Determination of the relative strength of resources revolves around the idea of having to engage in an assessment of the long-term value of the funds for the company involved (Kim, Song, & Triche, 2015). In this assessment, the critical element of focus is determining whether indeed the resources would help towards maintaining performance as can be expected when adopting this particular theory. Additionally, the assessment also evaluates how the resources within a given company may work towards building its competitive advantage. The determination of the relative strength associated with the resources also involves a process of having to evaluate the uniqueness of the support or competency (Brulhart, Gherra, & Marais, 2017). For a company to maintain positive performance based on its resources, one of the critical areas to consider is ensuring that the resources that it is using to its advantage are unique and centered on the organizational goals.

Through this assessment, it becomes much easier to define whether a company would be able to determine its competitive positioning explicitly focusing on the idea building concrete structures of performance. For a company to be in a better position from which to define its performance, it must work towards ensuring that its competitors cannot replicate its vital resource or competency (Huo, Han, & Prajogo, 2016). The long-term benefit that this would have is that the company would be in a better position from which to boost its place with the focus being towards ensuring that it maintains expected performance outcomes. The third step in the process of RBV is the establishment of an essential platform from which companies would be able to highlight some of the prospects associated with building its success platform. In most cases, companies tend to experience failure due to a lack of an effective avenue from which to project the use of their resources.

In this particular step, companies use their essential position from which to determine the uses of their resources as a way of ensuring that they achieve positive performance. In most cases, this means that they must be willing to review the merits and demerits associated with their resources or competencies. The outcome is that this will play a critical role towards ensuring that companies work towards building their performance outcomes with the specific focus being towards advancing their intended capacities. Lockett & Wild (2014) point out the importance of evaluating the usefulness of resources arguing that this plays a critical role towards ensuring that companies seek to improve or advance their funds with the sole intention being towards building their competitive advantage.

#### 4. RESOURCES AND COMPETENCIES

Two central concepts that can be seen in the RBV theory are resources and competencies. Hashiba & Laureano Paiva (2016) argue that resources and skills are concepts that tend to create some form of confusion in meeting the general outcomes and expectations of this theory but show significant distinctions. Regarding the idea of resources, Duarte Alonso (2017) indicates that resources tangible and intangible assets that a company may consider as part of its capacity for performance with the sole intention being towards projecting positive outcomes. In most cases, companies can weigh their resources based on whether they can meet specific targets regarding their asset bases. Some of the notable examples of resources that companies may use to their advantage regarding building capacity include human resources, machinery, customer loyalty, and financial position among others.

On the other hand, Mele & Della Corte (2013) point out those competencies can be considered as some of the specific skills and knowledge that a company may hold with the focus being towards building a progressive performance platform. In most cases, companies tend to show their uniqueness depending on the skills, knowledge, and techniques that they adopt taking into account this provides them with a leeway from which to boost their performance outcomes. From that perspective, it is clear that resources and competencies tend to show significant variations regarding their expected meaning, thus, creating the need for companies to work on the idea of trying to understand how these two concepts may differ. Differentiation of these two concepts means that companies would be in a better position from which to boost their competitive advantage as a way of defining performance.

#### 5. PURPOSE AND BENEFITS OF RBV THEORY

The primary goal of the RBV theory from the perspective of company performance is to ensure that companies can build on their competitive advantage as a way of defining expected performance outcomes. In most cases, companies tend to operate within competitive markets, which create the need for them to reflect on some of the critical elements that would be of value towards building their competitive advantage. Yang & Lirn (2017) indicate that usage of the RBV theory creates a platform from which companies can define the performance of their companies from multiple perspectives. The outcome of this is that it builds on their competitive advantage, thus, paving the way for better performance outcomes explicitly focusing on the ability for a company to meet its strategic goals.

On the other hand, the RBV theory can be viewed from the perspective of the benefits that it projects for a company with the sole focus being towards determining whether this theory is practical from a business perspective. The first notable benefit of the RBV theory is that it enables companies to engage in a continuous process of upgrading their competencies to help build overall competition. Upgrading of competencies means that companies are well positioned towards understanding some of their critical projections with the focus being towards outlining overall performance. By using the RBV approach, companies find themselves in better platforms from which to engage in active processes of reflecting on their resources to help build that competitive advantage. The outcome of this can be seen from the market performance that a company can achieve within a given period.

The second benefit is that the RBV theory ensures that companies can maintain positive performance regardless of the challenges that they encounter within a given market. One fundamental problem is on the issue of competition, which remains a crucial issue of concern for the majority of companies. Another critical aspect of matter for the majority of the organizations is on the subject of performance stagnation in which companies find themselves in positions where they are unable to meet some of their set out standards due to lack of a clear-cut understanding of how to advance their views. The theory creates an avenue from which companies can build on their competitive performance with the sole focus being towards ensuring that they seek to overcome some of these challenges. From that perspective, it is clear that the RBV theory remains as a critical tool from which to boost overall performance about expected outcomes in a company.

#### 6. RBV THEORY AND STRATEGY FORMULATION

During the process of strategy formation, companies focus on some of the environmental factors that define their performance. Most of these environmental factors tend to create concrete structures from which companies can identify some of their set out goals. Some of the critical environmental factors that companies consider include political, economic, social, technological, and ecological. Jacobsen (2013) indicates that the environmental factors tend to act as critical tools that companies may use as their resources with the sole focus being on the idea of ensuring that they govern their performance through the RBV theory.

Strategy formation may become a significant challenge for companies considering that they must structure the strategy that they formulate from the perspective of the organizational goals and cultures. The adoption of the RBV in this front creates a platform from which companies can boost their expectations regarding performance. One key example can be seen from the fact that companies tend to use the RBV theory with the focus being towards paving the way for innovation, which, in turn, helps towards boosting performance. Firms find themselves in prospective positives from where they are not only expected to establish fronts for performance but are also expected to reflect on specific outcomes from which to develop a front of their innovation. Innovation means that companies tend to have a clear understanding of what it means to engage in a resource-based approach from which to ensure they seek to boost expected performance outcomes.

## 7. CRITICISM ON RBV THEORY

Although the RBV theory has been considered as being useful in meeting specific outcomes about ensuring that companies can boost their performance, it has also received several notable criticisms. The first unusual criticism to note is that the theory creates an additional platform from which to complete managements towards focusing much of their attention on internal resources while ignoring the fact that this is not the only avenue from which they would build on expected success (Seshadri, 2013). It can be argued that firms or companies that adopt this particular theoretical approach tend to fail in their understanding of the impacts that this would have on their performance. Lämsiluoto, Varamäki, Laitinen, Viljamaa, & Tall (2015) indicate that the idea of focusing much attention on resources tends to impact an organization negatively in cases where the funds may reduce, which, in turn, reduces a company's competitive advantage.

The second notable criticism associated with this theory revolves around its limited and narrow implications concerning the expected impacts that it would have from a company perspective. Manroop, Singh, & Ezzedeen (2014) argue that the application of the RBV theory presents significant limitations considering that the approach lacks that element of practicability from the perspective that it is difficult for companies to find a resource that would be unique and meet the laid out criteria. That means that the applicability of this theory is somewhat limited taking into account that it is slightly confusing or challenging for companies to work out effective approaches from which to boost their performance. The outcome of this is a company may find itself at as a disadvantage considering that it becomes difficult for it to determine what it expects regarding expected avenues for performance.

## 8. CONCLUSION

In summary, one of the critical approaches that companies adopt as part of their bid towards building a competitive advantage is the resource-based view (RBV) approach or theory. The approach also emphasizes on the use of the resources of the firms to measure and demonstrate the level of performance experienced and expected with a company. The long-term effect that this would have is that it would work towards defining performance for the companies involved with the focus being towards boosting expected outcomes. The literature review also evaluates how the resources within a given company may work towards building its competitive advantage. Two central concepts that can be seen in the RBV theory are resources and competencies. Upgrading of skills means that companies are well positioned towards understanding some of their critical projections with the focus being towards outlining overall performance.

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