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Forum

Operations management and the resource based view: Another view

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ABSTRACT

This paper evaluates the usefulness of the resource-based view (RBV) to the field of operations management. Based on the seminal RBV articles, we argue that using the RBV does not align with the objectives and activities of operations management researchers in several ways. First, the dependent variable in the RBV is sustained competitive advantage. Using sustained competitive advantage as a dependent variable implies that scholars focus on explaining the differences between the relatively few firms with sustained competitive advantage and all the other firms, ignoring performance variations within the great mass of firms. In addition, competitive advantage exists at the level of the business or the firm and does not directly translate into the normal level of operations management research. Measuring sustained competitive advantage also presents difficulties. Second, the explanatory variables in the RBV are resources that must be rare, valuable and hard or impossible to imitate. Measuring valuable resources or factors firms cannot imitate poses serious problems both in demonstrating value independent of the factor's impact on performance (i.e., avoiding tautology) and in measuring unique or nearly unique entities. Third, under the RBV, prescription is problematic; you cannot prescribe things that firms can readily implement because such things can be imitated. We present the practice-based view (PBV) as a simpler and better alternative for operations management where scholars attempt to explain the entire range of firm and unit performance based on transferable practices.

1. Introduction

In their very impressive discussion of the resource based view, Hitt et al. (2015) present what they see as the key characteristics of the resource based theory and evaluate its implications for operations management scholarship. Specifically, they discuss how research in four key areas of operations management – supply chain management, operations strategy, performance management, and product/service innovation – aligns with resource based theory.

Let us begin by noting that strategy scholars generally call what Hitt et al. (2015) termed the Resource Based Theory as the Resource Based View (RBV). We will use the RBV terminology for two reasons. First, it is the standard terminology. Second, we see the RBV more as an umbrella concept than a theory per se. We explain this below.

Any discussion of the RBV inherently depends on how one defines the RBV. We wish to disagree with Hitt et al. (2015) characterizations of the RBV and to offer a somewhat different analysis that leads to different conclusions about the RBV's value to the field of operations management. Since we are not in the operations management field, let us clarify what we see as the primary interests of the field. We believe operations management scholars want to explain which firms use which operations management practices and understand the influence of such operations management practices on operational performance. A good understanding of such relations could support prescription.

The RBV has been incredibly popular in strategy and operations management research for several reasons. It has an extremely compelling logic but, as we will argue in this paper, the logic rests on factually incorrect assumptions. It also has been applied by scholars who for the most part do not take the details of the RBV arguments seriously, a point acknowledged by Barney (2001). As we will demonstrate later, the immense majority of strategy papers claiming to use the RBV do not do so in a way that could ever test the RBV.

We will criticize the suitability of the RBV for operations management research on several grounds. First, seminal articles on the RBV identified the dependent variable in the RBV as sustained competitive advantage. Using sustained competitive advantage as a

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dependent variable implies research focuses on explaining the differences between the relatively few firms with sustained competitive advantage and all the other firms, ignoring performance variations within the great mass of firms. In addition, competitive advantage exists at the level of the business or firm and does not directly translate into the normal level of operations management research. Measuring sustained competitive advantage presents such difficulties that the immense majority of RBV studies in strategy do not even try to measure it, using firm performance instead. Second, the explanatory variables in the RBV are resources that must be rare, valuable and hard or impossible to imitate. Measuring valuable resources or factors firms cannot imitate poses serious problems both in demonstrating value independent of the factor's impact on performance (i.e., avoiding tautology) and in measuring unique or nearly unique entities. Third, under the RBV, prescription is problematic; you cannot prescribe things that firms can readily implement because such things can be imitated and so are not RBV resources. We present the practice-based view (PBV) as a simpler and better alternative for operations management where scholars attempt to explain the entire range of firm and unit performance based on transferable practices.

In the next section, we identify the core ideas, constructs, and intellectual foundations of the RBV. We detail why we see the RBV as inappropriate for operations management research, and why we see the RBV as a perspective rather than a theory. The following sections expand on these issues considering problems in the usefulness of the RBV for operations management based on two major components of the RBV namely, the dependent variable of interest and the kinds of variables that explain the dependent variable. We then present the practice-based view (PBV, Bromiley and Rau, 2014) as an alternative to the RBV. We conclude the paper by exploring the implications of the practice based view for operations management research.

2. What is the RBV?

Defining the RBV runs into the difficulty that authors have written about it in somewhat inconsistent ways. Hence, clarity about the RBV is problematic. We, and we think most strategy scholars, view the seminal RBV works as Barney (1986, 1991) and Peteraf (1993). Most RBV studies cite these three articles as the basis of the RBV, giving these studies extremely high numbers of citations. Consequently, we take these three articles as defining the RBV. When we refer to the RBV in this paper, we mean the RBV as presented in these papers.

In brief, **the RBV attempts to explain firm sustainable competitive advantage as stemming from firm resources that are rare, valuable, hard or impossible to imitate or duplicate, and hard to substitute**. This description alone suggests the RBV is not appropriate for most of what operations management scholars want to study. Operations management practices for the most part are not RBV resources. Most practices are not rare or impossible to imitate. Indeed, operations management scholars generally want to identify practices that many firms can implement. Furthermore, operations activities per se do not tie to sustained competitive advantage. Operations management activities have performance implications, but good operations management is neither necessary nor sufficient for sustained competitive advantage. Consequently, this paper will elaborate on these two themes: the problems with both the dependent variable and the explanatory variables in the operations management context.

We see the RBV as a perspective rather than a theory primarily because a theory should lead to testable hypotheses; a theory should be refutable or falsifiable (Bacharach, 1989). However, the RBV does not lead to many testable hypotheses, particularly in the form proposed by Hitt et al. (2015). Exactly what data and analysis would refute the RBV as described by Hitt et al. (2015)? One might argue the RBV predicts that firms will differ and that those differences will improve performance. However, any sensible theory of organizations predicts firms differ and those differences will influence performance, but obviously firm differences can have negative or positive influences on performance. One might argue the RBV predicts serial correlation in performance, but again any sensible theory of organizations predicts this. Even a conventional economic model where firms make optimal decisions can make these predictions if we assume random shocks at the firm level and adjustment costs.

The theoretical developments of the RBV do make some testable assertions, but these are not assertions RBV scholars usually consider. Specifically, theoretical developments of the RBV imply that firms cannot obtain sustainable competitive advantage by the use of practices that are not RBV resources. Theoretical developments of the RBV also imply that firms will use all publicly available practices that might benefit the firms making these unable to explain sustained competitive advantage. However, RBV scholars do not concern themselves with these implications.

We do agree that the mechanisms identified by the RBV can operate, but, contrary to RBV theorizing, they are not the sole explanation for variation in firm performance within industries and may not even be the primary ones. The logic in RBV papers suggests that only RBV resources matter in explaining sustained competitive advantage, but we will argue that firm abilities that are not necessarily rare, imitable, or inherently valuable can also explain performance variation.

A more serious issue is that the RBV's lack of specificity means that most studies ostensibly under the RBV label actually use other theories to justify their hypotheses. Suppose for example that the resource of interest was a combination of human resources (HR) practices that resulted in greater employee motivation and performance. Remember, these practices must not be definable enough that they can be readily copied or imitated. The RBV says nothing about the relation between the HR practices and employee motivation and between employee motivation and firm performance. Rather, the arguments linking HR to motivation and motivation to performance derive from theories of employee motivation (see, for example, De Saa Perez and Falcón, 2004). RBV scholarship generally follows this pattern – invoking the RBV but actually justifying hypotheses with other, non-RBV, theories. According to Hitt et al. (2015), this trend appears also in operations management research based on the RBV; Hitt et al. (2015) notes that 77% of the articles in this field that used RBV did so in conjunction with other theories such as transactions cost theory, agency theory, etc.

It may help to understand the RBV by examining its implicit and, and to some extent explicit, intellectual foundations. RBV theorizing often takes as a backdrop a world where every firm can and does imitate every useful technique. In such a world, the theorists assume firms will tend toward homogeneity and equal profitability. Indeed, following such a logic, Grant and Jordan (2012, 174–175) says "(i)n the long run, competition eliminates differences in profitability between competing firms … In the world tobacco industry, the external environment is fairly stable and the leading firms pursue similar strategies … competitive advantages, as reflected in inter-firm profit differentials, tend to be small." While this sounds plausible, it is dead wrong. If we look at the seven cigarette manufacturers available in Compustat (sic code 2111), in 2012, return on assets varied from 2.5% to 23.3% and return on equity is much more variable. A quick examination of the distribution of performance by industry will show that almost all industries have substantial continuing variation in performance. Such variation is not just between a set of high performing firms and the mass of