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# Re-assessing resource worthiness: A new model



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Strategic management requires a thorough understanding of how organizational resources are categorized and operationalized. Since both practical and conceptual advancement of this topic has been limited in recent years, we believe it is time for a re-assessment. Accordingly, the purpose of this article is to persuade managers to resist the shackles of complacency and move beyond the traditional ideas of resource categorization and utilization. In doing so, we hope to help managers concretely link tangible and intangible assets to the firm's performance indicators.

Resource categorization requires an understanding of the Resource-Based View of a firm. The beginnings of the Resource-Based View were initially clarified in the 1950s, and subsequent attempts at examining the product-side of a firm, such as those by Biger Wernerfelt, have been well-received by strategists and practicing managers. Wernerfelt argued that a firm is a collection of resources that include money, time, machinery, distribution channels, public perception, employee satisfaction, and managerial talent, among many others. He also asserted that firms who compete against one another in a single market have very different bundles of resources at their disposal. If a firm possesses a significantly larger stockpile of a resource relative to competitors, it may leverage that resource to its advantage. Using this logic, managers began to wonder which of their resources should command the majority of their investment and attention.

To help managers separate their important resources from marginal ones, Jay Barney outlined four components of a resource that make it likely to generate competitive advantage, describing the importance of Value, Rarity, Inimitability, and Substitutability (VRIS). If a resource meets these four requirements, it should bring a competitive advantage to a firm. Conversely, resources that do not meet these criteria are not capable of generating competitive advantage. The VRIS framework, however, has two major limitations.

First, the framework is somewhat redundant when we consider that Value is a function of perceived (or actual) Rarity. As the Value-creating potential of a resource increases, so does the price of that particular resource. This can result in a lower quantity of demand, and the continued perpetuation of the resource's actual Rarity. To combat this, Barney and fellow strategist Margaret Peteraf re-clarified the term 'value' as it relates to rarity. But, this muddied the water. When the VRIS framework was first introduced, value was referred to in the context of assessing a resource's potential prior to the actual resource deployment. The two strategists would later argue that a resource's value must be assessed after it has been deployed.

This backwards-looking view of resource evaluation (while constituting a necessary and essential business function) is not the strategic equivalent of accurately *forecasting* which resources are inherently value-generative for a firm. Strategy is most useful when key leaders proactively realize the untapped potential in a strategic resource. An example of this foresight is when Apple bought Siri in 2010. At the time, the acquisition might have seemed routine, with Apple presumably wanting to introduce an innovative wrinkle to their iOS product. However, given the unprecedented jump in mobile search engine use the world over, Apple clearly plans to leverage Siri's algorithmic and voice-recognition software to compete with Google's mobile search capability.

The second weakness of the RBV is that the four components of resource worthiness are limited in their practicality due to an inherent inability to consistently quantify them. In other words, if one cannot accurately define 'value', then measuring a resource's value can obviously be a daunting challenge. Michael Porter has argued that the VRIS framework for assessing resource-worthiness is imprecise, and worse, it allows companies to exaggerate their resources and competences without substantiating their claims with suitable analyses. Nevertheless, commitment to the VRIS

criteria still abounds. For this reason, we contend that those who formulate and implement strategy should decouple themselves from the VRIS criteria in favor of a framework that categorizes a firm's resources thoroughly and accurately.

In creating this new framework, we examined the relationship between resource tangibility and knowledge tacitness. The outcome of this arrangement yielded four resource categories: (1) Delphic, (2) Wheel, (3) Secret Sauce, and (4) Mandate. These four categories only evaluate resource utility at a single point in time. Therefore, we also examined dynamism in order to help managers think about the temporal influences of evolving market dynamics, shifting business structures, and resource accumulation/depletion. The outcome is a three dimensional array that contains eight resource categories. This model can be used to help managers and strategists clearly map their firm's resource space. Doing so will help managers conceptualize their own resource bundle, decide which are most important for their firm, and efficiently make use of their most important resources. The model represents a strategic performance measurement system (SPMS) that managers can use to chart their strategic resource bundle in a common language, produce strategies, and communicate those strategies to subordinates.

## INTANGIBLE RESOURCES AND KNOWLEDGE

Intangible resources, such as organizational culture and firm reputation, can significantly impact overall organizational performance. They generate indirect rents to the possessing firm, since they lack the attribute of being easily quantifiable. The resource in/tangibility construct refers to the extent to which the resource can be seen, touched, or physically accounted for. Other intangible resources include intellectual property rights of patents and trademarks, copyrights and registered designs, contracts, trade secrets, digital data bases and computer software, goodwill, public knowledge such as scientific works, subjective "know-how", relationship networks, firm and product reputation, leadership, and employee identification.

Zappos, Under Armour, Whole Foods Market, Progressive Corp., and CNA Financial are examples of firms with corporate cultures. Similarly, the 2016 Harris Poll for firm reputations ranked Amazon, Apple, and Google as the general public's most-liked firms – an intangible resource that can be leveraged in a number of advantageous ways. Equally significant, yet much less overt, IBM enjoyed the benefit of obtaining 7355 patent grants in 2015. This equates to nearly 20 per day over a calendar year. These examples show that it is not a far stretch to see how these resources can manifest into competitive advantages. These resources are so valuable that an argument can be made for the inclusion of itemized intangibles (e.g. brand equity) on official company balance sheets.

The existence of a resource is necessary but not sufficient to generate competitive advantage. For this potential to be realized, a firm must also have and employ the requisite knowledge needed to leverage the resource. The concept of knowledge; falls into two types: (1) explicit and (2) tacit. Explicit knowledge is unambiguous, reducible, and easily transferable. It is able to be codified and communicated.

It is most useful when completing regimented tasks. Tacit knowledge, on the other hand, is knowledge that has ambiguous origin and is not fully communicable. Tacit knowledge is less pragmatic in nature and more distributed in character than explicit knowledge. It also lacks well-defined boundaries, and is highly evolutionary. Typically generated at a micro-level, it is difficult to transfer between employees and functional groups. Even when properly communicated, tacit knowledge is seldom totally actionable. For example, General Electric has attempted to codify the best practices of management using its "Green Beret" program. The program is five years long, and its goal is to find and instruct the next generation of General Electric executives. In spite of trainees' intense commitment, fewer than 2% of them earn spots on senior-management teams. This means that because the skillsets required to manage and lead are principally tacit, even rigorous programs cannot seamlessly transfer this type of knowledge.

## CONCEPTUAL INCORPORATION

Tacitness of knowledge and resource tangibility exist on spectrums that is, they are more continuous than dichotomous in nature. A resource is not merely tangible or intangible, nor is the knowledge required to use it merely explicit or tacit. In reality, these latter two characteristics are likely to fall somewhere in the middle. To illustrate this, we first sought to orient knowledge tacitness and resource tangibility in a way that displays this relationship. Accordingly, we arranged the two spectrums perpendicularly, forming a two-dimensional coordinate plane with four quadrants (see Fig. 1).

This diagram entails two sequential questions. First, *how tangible is this resource?* The answer conveys the location of the resource on the x-axis. Resources with a high degree of tangibility (e.g. physical infrastructure such as warehouses) fall somewhere on the far right end of the x-axis, while an intangible resource (e.g. reputation) is placed on the far left end. Second, *what type of knowledge is required for operational deployment of this resource?* Answering this question places the location of the resource on the y-axis. For example, a resource requiring mostly tacit knowledge has a high y-value (e.g. artistic and/or creative talent), while a resource requiring explicit knowledge has a low y-value below the x-axis (e.g. machinery, communication networks). A resource's placement on both the x and y axes should be done in as close to an interval-scaled manner as possible. This is because the coordinates close to the origin are minimally characteristic of

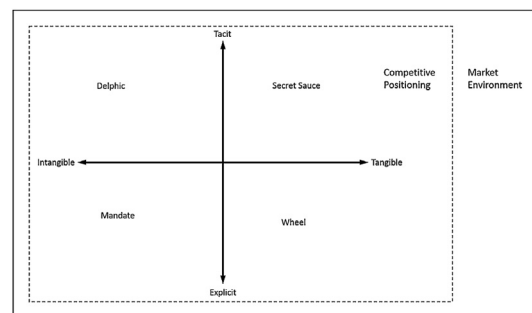


Figure 1 The tacitness and tangibility matrix.

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