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Teaching Dynamic Competition in Marketing

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Abstract - The purpose of this paper is to illustrate how marketing instructors can prepare students for the real world of dynamic, even hyper-kinetic, competition by teaching resource-advantage (R-A) theory of competition. Accordingly, this paper reviews the problem of marketing students' lack of preparation for real-world, dynamic competition which is a result of the static-equilibrium focus of the theories of competition that they learn in their economics courses, and shows how the problem can be resolved by exposing students to the dynamic competition of R-A theory. Specifically, we provide answers to five questions concerning pedagogy and R-A theory: (1) Why should students learn about dynamic competition, in general, and R-A theory, in particular? (2) What should students read prior to class? (3) What background information should be discussed? (4) Which figures and tables should be used? (5) What does R-A theory imply for teaching marketing? Overall, in addition to providing students an understanding of dynamic competition, R-A theory "pulls together" theories of marketing strategy. In fact, in graduate and undergraduate marketing strategy classes that use R-A theory, instructors report that they see extensive use by students of R-A theory and the theory's lexicon, R-A theory's conceptual frameworks, and central tenets of different forms of marketing strategy.

Keywords - dynamic competition, resource-advantage (R-A) theory of competition, marketing strategy, marketing pedagogy

Relevance to Marketing Educators/ Researchers, and/or Practitioners – This paper helps marketing instructors in preparing students for the real world of dynamic, even hyper-kinetic, competition. As to practitioners, resource-advantage (R-A) theory can contribute to better decision-making by providing a foundation for understanding and integrating different forms of marketing strategy.

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Introduction

Most marketing students, both undergraduate and graduate, have had one or more economics courses before they take their first marketing course. Consider what such students know (or think they know) about *competition* when they come to marketing. First, competition, according to the dominant, neoclassical, static-equilibrium approach, is determined by industry structure, and industries that are not monopolies may be classified as having perfect, monopolistic, or oligopolistic competition (based on number of firms, etc.). In all these forms of competition, firms trend toward equilibrium positions, and innovation is exogenous (i.e., all innovation comes not from firms competing, but from sources such as government). Second, when *perfect* competition exists, the role of managers is solely to determine the quantity of a homogeneous product to produce and implement a "production function" that is the same for all competitors. Third, the quantity decision is made under conditions of perfect information by solving the profit-maximizing equation that equates marginal cost and marginal revenue (the industry-determined price). Fourth, perfect competition is *perfect* in that all other forms of competition (e.g., monopolistic competition) are, among other things, less efficient in allocating scarce resources (i.e., labor, land, and capital).

Now consider the competitive circumstances that students observe when they graduate and assume positions in firms in real-world industries. First, they observe that competition seems to be a dynamic process among rivals, in which the actions of competitors change the competitive circumstances at an astonishing rate. In fact, the high rate of competition-induced, large and small innovations seems to be the only constant. Second, managers are observed to make a wide range of decisions, including which market offerings to produce, with which characteristics, promoted to which groups of potential customers, and so forth. Instead of being the "price takers and quantity makers" described in their economics' courses, most firms seem to be "price makers and quantity takers." Third, very few managers' decisions seem amenable to *any* equation-solving technique, much less the simple, profit-maximizing formula. Furthermore, the information needed to make the host of decisions that are necessary for competing is not just woefully inadequate, but seeking out desirable information is time-consuming and costly. Fourth, given the enormous improvements in productivity brought about by the innovations of competing firms and the economic growth induced by such improvements in productivity, the innovationless "perfect competition" students learned in economics seems more like a case of market failure than a state of perfection.

The problem for marketing instructors is foundational: how can we prepare our students for the real world of dynamic, even hyper-kinetic, competition when students' formal training in economics has not just focused on static equilibrium and equation-solving, but also maintained that real-world, dynamic, innovation-focused competition was "imperfect" and, therefore, bad for society? The problem is exacerbated by the fact that their finance and other business courses seem also to stress the static equilibrium approach to competition. We believe our students' best interests are served by exposing them, early in their marketing program, to a

dynamic theory of competition that not only better describes real-world competition, but also shows them how real-world competition produces increases in productivity and economic growth. The theory that we have found to work well is the resource-advantage (R-A) theory of competition, originally proposed in Hunt and Morgan (1995) and subsequently developed in numerous other works, much of it reviewed and summarized in Hunt (2000) and Hunt and Morgan (2005). The theory has also been shown to work well for teaching marketing strategy (Hunt and Madhavaram, 2006).

Resource-advantage theory views competition as an evolutionary, disequilibrating process, in which innovation and organizational learning are endogenous; firms and consumers have imperfect information; and entrepreneurship, institutions, and public policy affect economic performance. This article focuses on how to use R-A theory to teach dynamic competition in marketing classes. Our recommendations are based on our teaching experiences with both graduate and undergraduate marketing courses, as well as the suggestions of other faculty who have shared their experiences with us. We focus on five issues (questions) concerning pedagogy and R-A theory: (1) Why should students learn about dynamic competition, in general, and R-A theory, in particular? (2) What should students read prior to class? (3) What background information should be discussed? (4) Which figures and tables should be used? (5) What does R-A theory imply for teaching marketing?

Why R-A Theory?

Students deserve to know why they are being asked to understand their courses' theories and frameworks. Our experience is that a good rationale for students learning dynamic competition theory is twofold. First, the purpose of theories is to explain and predict phenomena, and R-A theory does a good job of explaining and predicting numerous phenomena. Second, good theories (those that explain and predict) make for better managers' decisions.

As to the first reason, we point out to students that R-A theory–using Hunt (2000) as a common reference in the following page citations– contributes to explaining and predicting: firm diversity (pp. 152-155), financial performance diversity (pp. 153-155), observed differences in quality, innovativeness, and productivity between market-based and command-based economies (pp. 169-170), why competition is dynamic (pp. 132-133), how competition is a process of knowledge discovery (pp. 29-30, 145-147), why social relations constitute a resource only contingently (pp. 100-102), how path dependence effects occur (pp. 149-152), and the concept of capital (pp. 186-190).

Furthermore, R-A theory predicts correctly that: technological progress dominates the K/L (i.e., capital/labor) ratio in economic growth (pp. 193-194), increases in economic growth cause increases in investment (pp. 194-199), most of the technological progress that drives economic growth stems from actions of profit-driven firms (pp. 199-200). It also contributes to explaining: the growth pattern of the (former) Soviet Union (pp. 201-203), why formal institutions promoting property rights and economic freedom also promote economic growth (pp. 215-228), and how informal institutions promoting social trust also promote economic growth (pp. 235-

237).

As to the second reason for students to learn about dynamic competition, R-A theory can contribute to better decision-making by providing a foundation for understanding and integrating different forms of marketing strategy. (We return to this use of the theory in a later section.) Furthermore, conceptual frameworks drawn from R-A theory can help in solving marketing problems. (Again, we return to this in a later section).

What to Assign?

What assigned reading(s) should be used? There are over thirty articles, in the marketing, management, ethics, general business and economics literatures, from which to choose. The most frequently assigned reading is Hunt and Morgan (1995). An advantage for this choice is that this article was the starting point for the research program developing the theory. Disadvantages include that the reading is a bit "heavy" for most students; it does not include the best schematic depicting the process of competition; and it focuses on the macro dimensions of the theory (e.g., productivity and economic growth), rather than its use in business and marketing strategy.

Assuming that only one article will be assigned, two good options are Hunt and Morgan (2005) and Hunt and Derozier (2004). Both overview the theory, include the best schematic of the process of competition, and have a major section on using the theory to understand and integrate business and marketing strategy. An advantage of the first article is its completeness. An advantage of the second article is its parsimony, for it focuses *exclusively* on strategy. Either choice will work well, depending on the instructor's course objectives. Alternatively, for the undergraduate level, introductory marketing courses, instead of assigning articles, instructors could provide a short note that contains (i) the definition of competition, (ii) the discussion of the table that compares the foundational premises of R-A theory and perfect competition, (iii) conceptual explanations of resources, comparative advantage, competitive advantage, superior financial performance, (iv) the schematic of R-A theory and corresponding explanation/discussion of environmental forces, and (v) the marketplace position matrix and corresponding discussion/explanation. In fact, we provide all the necessary material in the later sections of this paper.

What Background Information?

Students should be aware of the historical background or "pedigree" of the theories they study. R-A theory has affinities with different research traditions (see chapters 2, 3, and 4 in Hunt, 2000). An extensive class discussion of the research traditions in R-A theory's pedigree is unnecessary. However, students should understand three major points. First, the theory was not *created* by combining elements from each tradition. Rather, the original impetus for developing the theory was the belief that "if we joined the resource-based theory of the firm with heterogeneous demand theory and Alderson's theory of differential advantage, we might be able to develop a new

theory of competition" (Hunt and Morgan, 2005: 159). Second, R-A theory is not the *same as* any of the theories in any of the traditions of its pedigree. For example, R-A theory is not the same thing as the resource-based view (RBV) in business strategy. The RBV is a theory of the *firm*. In contrast, R-A theory is a theory of *competition*. Indeed, many RBV theorists adopt a static equilibrium approach to competition that is antithetical to the dynamics of R-A theory.

Third, R-A theory "draws more strongly from differential advantage theory than any other research tradition" (Hunt 2000, p.63). As developed by Alderson (1957, 1965), differential advantage theory, as does R-A theory, maintains that competition (a) is dynamic, (b) is both initiatory and defensive, and (c) involves a struggle for advantages. Furthermore, both theories argue that general equilibrium is an inappropriate welfare ideal. Indeed, Hunt (2002: 248) agues that R-A theory is *toward* a general theory of marketing on several grounds, including the fact that "it accommodates key concepts and generalizations from Alderson's theory and integrates them into a broader theory." Students, therefore, need to be shown how R-A theory "fits into" the broader, theoretical foundations of marketing.

Which Figures and Tables?

Of the numerous figures and tables that have been used to explicate R-A theory, we believe that the minimum set includes the schematic of competition, the marketplace position matrix, and the foundational premises of the theory, which are identified as Figure 1, Figure 2, and Table 1 in Hunt and Morgan (1997). An effective order of presentation, we find, is to discuss Table 1 first, then Figures 1 and 2.

Table 1

Foundational Premises of Resource-Advantage Theory	
P_1:	Demand is heterogeneous across industries, heterogeneous within industries, and dynamic.
P_2:	Consumer information is imperfect and costly.
P_3:	Human motivation is constrained self-interest seeking.
P_4:	The firm's objective is superior financial performance.
P_5:	The firm's information is imperfect and costly.
P_6:	The firm's resources are financial, physical, legal, human, organizational, informational, and relational.
P_7:	Resource characteristics are heterogeneous and imperfectly mobile.
P_8:	The role of management is to recognize, understand, create, select, implement, and modify strategies.
P_9:	Competitive dynamics are disequilibrium-provoking, with innovation endogenous.

Source: Adapted from Hunt and Morgan (1997).

Discussing the Foundational Premises

Table 1 shows the foundational premises of R-A theory and contrasts them with perfect competition theory from neoclassical economics. Because most students are only familiar with perfect competition theory, we find discussing each theory's premises as a *contrast* to be very effective. Furthermore, many students, though generally familiar with perfect competition theory, need remedial work on precisely what its grounds are. Consequently, we find that *briefly* discussing perfect competition's premises first, followed by *extensively* discussing R-A theory's foundations, works well.

Although this article, of course, cannot review R-A theory's premises (see Hunt, 2000: 105-34 and/or Hunt and Morgan, 2005: 163-77), four points should be emphasized in class. First, as to the firm's objective, the "superior" in superior financial performance equates with both more than and better than, that is, firms seek a level of financial performance exceeding that of some referent. For example, the indicators of financial performance can be such measures as accounting profits, earnings per share, return on assets, and return on equity. The referent against which the firm's performance is compared can be the firm's own performance in a previous time-period, the performance of rival firms, an industry average, or a stock-market average, among others. Students need to understand that both the specific measures of financial performance and the specific referents used for comparison purposes will vary somewhat from time to time, firm to firm, industry to industry, and culture to culture.

Second, students also need to be shown how positing that the firm's goal is superior financial performance differs from profit maximization and how superior financial performance ensures that R-A competition is dynamic. It is no accident that static theories assume profit or wealth maximization. However, if a firm is already making the maximum profit, why should it—absent environmental shocks—ever change its actions? For example, if a firm is maximizing profits producing a product at a certain quality level, why should it ever attempt to improve quality? In contrast, if (1) firms are posited to always seek more profits, higher earnings per share, and/or greater return on investment, and (2) they believe that there are always actions that can be taken to accomplish these goals, then (3) competition will be dynamic.

Third, significant class time should be devoted to conceptualizing "resources" and the discussing the importance of different types of resources. For R-A theory, resources are defined as the tangible and intangible entities available to the firm that enable it to produce efficiently and/or effectively a market offering that has value for some market segment(s). Resources are categorized as financial (e.g., cash reserves and access to financial markets), physical (e.g., plant, raw materials, and equipment), legal (e.g., trademarks and licenses), human (e.g., the skills and knowledge of individual employees, including, importantly, their entrepreneurial skills), organizational (e.g., controls, routines, cultures, and competences—including, importantly, a competence for entrepreneurship), informational (e.g., knowledge about market segments, competitors, and technology), and relational (e.g., relationships with competitors, suppliers, and customers). Therefore, students need to appreciate that entities are

resources only contingently. That is, an entity is a resource to a firm if, and only if, it contributes to enabling the firm to produce efficiently and/or effectively a market offering that has value for some market segment(s).

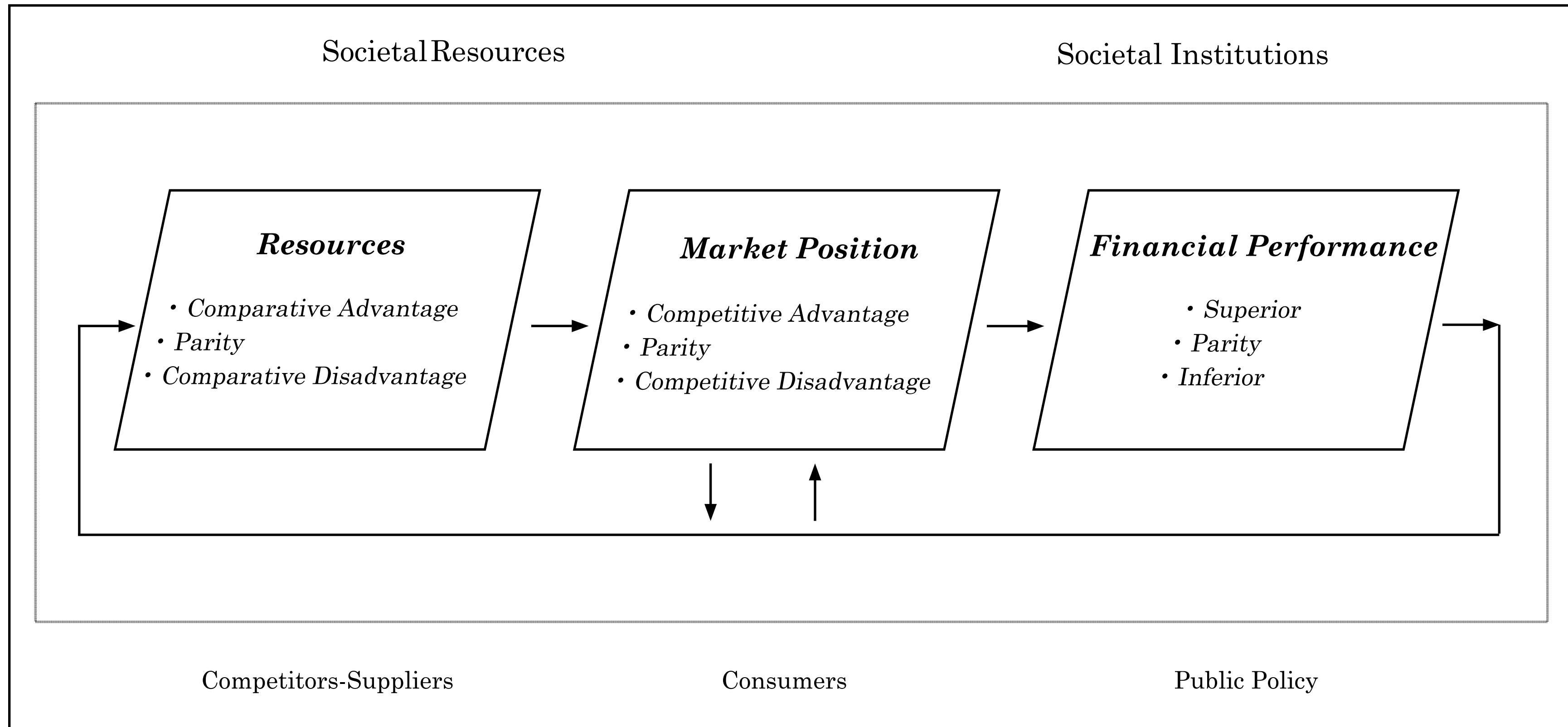
Fourth, students should be encouraged to think about a firm with which they are familiar and speculate on the nature of the particular resources that are potentially related to the firm's financial performance. This exercise works better, of course, with students who have had business experience. To drive the point home as to the importance of resources, we find it helpful to encourage students to think of themselves as "bundles of resources" (e.g., particular kinds of skills, knowledge, and expertise). They should then conduct a "personal resource audit" and ask themselves "what kinds of resources do I need to make myself attractive to future employers?" This exercise, we find, is particularly meaningful to students.

Discussing the Schematic of Competition and Marketplace Position Matrix

Figure 1 shows that competition, for R-A theory, is the disequilibrating, ongoing process that consists of the constant struggle among firms for comparative advantages in resources that will yield marketplace positions of competitive advantage and, thereby, superior financial performance. Figure 2 shows the nine possible marketplace positions, including three positions of competitive advantage (cells 2, 3, and 6), three of competitive disadvantage (cells 4, 7, and 8), two indeterminate positions (cells 1 and 9), and the parity position (cell 5). Our experience is that both figures are powerful visual aids that contribute to students' "seeing" the process of competition.

We normally discuss the schematic from right to left. That is, superior financial performance results from marketplace positions of competitive advantage, which result from comparative advantages in resources. Likewise, inferior financial performance results from marketplace positions of competitive disadvantages, which result from comparative disadvantages in resources. Instructors should stress the importance of distinguishing (1) positions of competitive advantage from (2) the comparative advantages in resources that result in the positional advantages, and (3) the possibility that marketplace positions and advantages in resources may be sustained over long periods of time. These concepts are often confounded or used interchangeably in students' other courses.

FIGURE 1
A Schematic of the Resource-Advantage Theory of Competition



Read: Competition is the disequilibrating, ongoing process that consists of the constant struggle among firms for a comparative advantage in resources that will yield a marketplace position of competitive advantage and, thereby, superior financial performance. Firms learn through competition as a result of feedback from relative financial performance "signaling" relative market position, which, in turn signals relative resources.

Source: Hunt and Morgan (1997).

FIGURE 2
Competitive Position Matrix[a]

		Relative Resource-Produced Value		
		Lower	Parity	Superior
Relative Resource Costs	Lower	1 Indeterminate Position	2 Competitive Advantage	**3** Competitive Advantage
	Parity	**4** Competitive Disadvantage	**5** Parity Position	**6** Competitive Advantage
	Higher	**7** Competitive Disadvantage	8 Competitive Disadvantage	**9** Indeterminate Position

[a]Read: The marketplace position of competitive advantage identified as Cell 3 results from the firm, relative to its competitors, having a resource assortment that enables it to produce an offering for some market segment(s) that (a) is perceived to be of superior value and (b) is produced at lower costs.
Source: Adapted from Hunt and Morgan (1995).

Figure 1 displays five environmental factors that influence the process of competition: societal resources, societal institutions, competitors-suppliers, consumers, and public policy. Different instructors will, quite naturally, wish to emphasize different factors in class discussion. While we spend significant time discussing how public policy (e.g., antitrust law) influences the process of dynamic competition, others spend more time on how different types of competitors will influence competitive processes. Figure 1 allows and promotes the tailoring of class discussion to instructors' objectives.

Figure 2, the marketplace position matrix, provides an opportunity to again stress why competition is dynamic and what promotes innovation. Note that all firms seek positions of competitive advantage, but all firms cannot occupy such

positions *simultaneously*. Therefore, those firms that occupy positions of competitive *disadvantage* (and, hence, are suffering from inferior financial performance) will seek innovations that will move them upward and to the right in the marketplace position matrix. These "reactive" innovations ensure that the process of R-A competition must be dynamic. Also, those firms that (temporarily) occupy marketplace positions of competitive advantage are also motivated to innovate because they realize that competitors are chasing them. Therefore, occupying marketplace positions of competitive advantage will seek "proactive" innovations in order to continue to earn superior financial performance. These proactive innovations contribute to the dynamism of R-A competition.

Finally, Figure 2 can contribute to students' understanding of why the parity position (misguidedly advocated by perfect competition as optimal) is inherently unstable: parity positions yield parity performance, and parity performance is not good enough. From managers' perspectives, superior firm performance is desirable because it leads to superior managers' rewards. From society's perspective, superior firm performance is the desirable objective because if firms in an industry accept parity performance as their objective (by collusion, for example), then society is deprived of the competition-induced innovations that increase productivity and, thereby, promote increases in economic growth.

What Implications for Teaching Marketing?

The original articles developing R-A theory focused on articulating a dynamic theory of competition and exploring its macro implications. Given that teaching most marketing courses involves the coverage of different marketing strategies at some stage, it is important to explore the implications of R-A theory for marketing strategy. In fact, noting that all strategies are implemented in the context of competition, instructors of marketing strategy began assigning Hunt and Morgan (1995). As these instructors reported favorable student reactions, research focused on the theory's micro aspects. Specifically, Chapter 9 of Hunt (2002), followed by Hunt and Arnett (2004), Hunt and Derozier (2004), and Hunt and Morgan (2005) advanced the thesis that R-A theory can provide a theoretical foundation for integrating different forms of marketing strategy. Finally, Hunt and Madhavaram (2006) discussed how R-A theory can be used to teach marketing strategy. In fact, the successful use of R-A theory for teaching marketing strategy has prompted us explore how R-A theory can be used in teaching most if not all marketing courses including introduction to marketing. R-A theory, these works argue, grounds and integrates different forms of marketing strategy in the sense that the theory incorporates central tenets of strategy and contributes to understanding why and/or when strategies may be successful.

A major problem for student in their efforts to sort out the morass of works advocating particular forms of marketing strategy is the lack of attention in strategy to specifying the central, underlying premises of each form. Works on R-A theory have focused on four forms of strategy that are distinctly marketing: market orientation, market segmentation, relationship marketing, and brand equity. Their central tenets—again, in R-A theory terms—are that, to achieve competitive advantage and,

thereby, superior financial performance, firms *should*:

- for *market orientation strategy,* (1) systematically gather information on present and potential customers and competitors, and (2) use such information in a coordinated way to guide strategy recognition, understanding, creation, selection, implementation, and modification;

- for *market segmentation strategy*, (1) identify segments of industry demand, (2) target specific segments of demand, and (3) develop specific marketing "mixes" for each targeted market segment;

- for *relationship marketing strategy,* identify, develop, and nurture an efficiency-enhancing, effectiveness-enhancing portfolio of relationships;

- for *brand equity strategy*, acquire, develop, nurture, and leverage an effectiveness-enhancing portfolio of high-equity brands.

After presenting the preceding, succinct, central premises of each form of strategy in class, we then use the material in the previously cited works to show how dynamic competition theory grounds, integrates, and contributes to students' understanding of strategy.

As one illustration, we discuss how R-A theory grounds competences-based strategy because competences are viewed as a kind of "higher order," *organizational* resource. Specifically, competences are defined as socially and/or technologically complex, interconnected, combinations of tangible basic resources (e.g., basic machinery) and intangible basic resources (e.g., specific organizational policies and procedures and the skills and knowledge of specific employees) that fit coherently together in a synergistic manner. Competences, we point out, are distinct resources because they exist as distinct packages of basic resources. Furthermore, because competences are causally ambiguous, tacit, complex, and highly interconnected, they are likely to be significantly heterogeneous and asymmetrically distributed across firms in the same industry. Therefore, when firms have value-creating competences, such competences can result in marketplace positions of competitive advantage and, thereby, superior financial performance.

As to the assessment of students' learning and the impact of R-A theory, instructors should note that, given that this innovation is foundational in nature, any assessment be reflective of the dynamic and continuous nature of competition. That is, assessment should be continuous and be both formal and informal. Indeed, in our class discussions of strategy, we find that students respond favorably to learning how R-A theory "pulls together" theories of marketing strategy. Furthermore, in graduate and undergraduate marketing strategy classes that use R-A theory in case based and/or a comprehensive project based pedagogy, instructors report that they see extensive use of R-A theory and the theory's lexicon, R-A theory's conceptual frameworks, and central tenets of different forms of marketing strategy. In fact, it is reported that students use extensively the schematic of R-A theory, competitive-

position matrix, and list of firm resources for analysis purposes for cases and projects in solving marketing problems.

Conclusion

We have found that marketing students' preparation for real-world, dynamic competition is lacking as a result of the static-equilibrium focus of the theories of competition that they learn. The problem, we find, can be resolved by exposing students to the dynamic competition of R-A theory and using the theory as a foundation for integrating different forms of marketing strategy. This article has attempted to share our experience in teaching dynamic competition with R-A theory, and we invite others to share their experiences with us.

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