The normative imperatives of business and marketing strategy: grounding strategy in resource-advantage theory

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Keywords

Corporate strategy, Resource efficiency, Marketing strategy, Relationship marketing

Abstract

Determining the strategic thrust of the firm, it may be argued, is the principal task of top management. This task is aided by recent theories of business and marketing strategy, including the normative imperatives based on industry factors, resource factors, competences, market orientation, and relationship marketing. Choosing wisely from among the various theories of strategy requires an accurate understanding of the contexts of competition. This article argues that resource-advantage theory, an evolutionary, disequilibrium-provoking process theory of competition, provides that understanding. That is, resource-advantage theory grounds theories of business and marketing strategy.

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Journal of Business & Industrial Marketing
Volume 19 · Number 1 · 2004 · pp. 5-22

DOI 10.1108/08858620410516709

An executive summary for managers and executive readers can be found at the end of this article

Theories of business and marketing strategy are normative imperatives. That is, they have the following, general form: "In order for a firm to achieve its goals, it should . . . " What follows the "should" differs according to the particular theorist's school of thought. For example, one school stresses the importance of industry factors (Montgomery and Porter, 1991; Porter, 1980, 1985), while others stress firm-specific competences (Day and Nedungadi, 1994; Hamel and Prahalad, 1994a, b; Prahalad and Hamel, 1990; Sanchez *et al.*, 1996) and inimitable resources (Barney, 1991; Grant, 1991; Wernerfelt, 1984). Some schools urge firms to focus on developing their dynamic capabilities (Teece and Pisano, 1994) and higher-order learning processes (Dickson, 1996; Senge, 1990; Sinkula *et al.*, 1997), while others emphasize the value-creating potential of networks of relationships (Berry and Parasuraman, 1991; Grönroos, 1996; Gummesson, 1994; Morgan and Hunt, 1994; Sheth and Parvatiyar, 1995a, b; Varadarajan and Cunningham, 1995; Weitz and Jap, 1995; Wilson, 1995). Some schools advocate a market orientation (MO) (Jaworski and Kohli, 1993; Slater and Narver, 1994; Webster, 1992, 1994), while others focus on "first mover" innovations (Kerin *et al.*, 1992; Lieberman and Montgomery, 1998) and brand equity (Aaker, 1991; Keller, 1993).

Choosing wisely from among the various schools of strategic thought requires that managers understand not just the alternative theories, but also the competitive contexts in which each normative imperative would likely work well. A strategy that is highly successful in one competitive context might fail dismally in another. Therefore, using theories of business and marketing strategy requires that managers understand the nature of competition. Alternatively stated, theories of business and marketing strategy must be grounded in a theory of competition.

The purpose of this article is to show how resource-advantage (hereafter, R-A) theory, an evolutionary, disequilibrium-provoking, process theory of competition, can ground business and marketing strategy. The article is organized as follows. First, we overview R-A theory. Next, we overview the three major schools of business strategy (i.e. industry-based, resource-based, and competence-based) and two prominent schools of marketing strategy (i.e. MO and relationship marketing (RM)). We then show how business and marketing strategy can be grounded in R-A theory[1].

An overview of R-A theory

R-A theory is an evolutionary process theory of competition that is interdisciplinary in the sense that it has been developed in the literatures of several different disciplines. These disciplines include marketing (Falkenberg, 2000; Foss, 2000; Hodgson, 2000; Hunt, 1997a, 1999, 2000b, c, 2001a, 2002a, b; Hunt and Arnett, 2001, 2003; Hunt *et al.*, 2002; Hunt and Morgan, 1995, 1996, 1997; Morgan and Hunt, 2002), management (Hunt, 1995, 2000a; Hunt and Lambe, 2000), economics (Hunt, 1997b, c, d, 2000d, 2002c), ethics (Arnett and Hunt, 2002), and general business (Hunt, 1998; Hunt and Duhan, 2002). R-A theory is also interdisciplinary in that it draws on and has affinities with numerous other theories and research traditions, including evolutionary economics, "Austrian" economics, the historical tradition, industrial-organization economics, the resource-based tradition, the competence-based tradition, institutional economics, transaction cost economics, and economic sociology.

R-A theory is a general theory of competition that describes the process of competition. Figures 1 and 2 provide schematic depictions of R-A theory's key constructs and its foundational premises (Hunt and Morgan, 1997):

P1. Demand is heterogeneous across industries, heterogeneous within industries, and dynamic.
P2. Consumer information is imperfect and costly.
P3. Human motivation is constrained self-interest seeking.
P4. The firm's objective is superior financial performance.
P5. The firm's information is imperfect and costly.
P6. The firm's resources are financial, physical, legal, human, organizational, informational, and relational.
P7. Resource characteristics are heterogeneous and imperfectly mobile.
P8. The role of management is to recognize, understand, create, select, implement, and modify strategies.
P9. Competitive dynamics are disequilibrium-provoking, with innovation endogenous.

Our overview will follow closely the theory's treatment in Hunt (2000b).

The structure and foundations of R-A theory

Using Hodgson's (1993) taxonomy, R-A theory is an evolutionary, disequilibrium-provoking, process theory of competition, in which innovation and organizational learning are endogenous, firms and consumers have imperfect information, and in which entrepreneurship, institutions, and public policy affect economic performance. Evolutionary theories of competition require units of selection that are: relatively durable, that is, they can exist, at least potentially, through long periods of time; and heritable, that is, they can be transmitted to successors. For R-A theory, both firms and resources are proposed as the heritable, durable units of selection, with competition for comparative advantages in resources constituting the selection process.

At its core, R-A theory combines heterogeneous demand theory with the resource-based theory of the firm (see *P1*, *P6*, and *P7*). Contrasted with perfect competition, heterogeneous demand theory views intra-industry demand as significantly heterogeneous with respect to consumers' tastes and preferences. Therefore, viewing products as bundles of attributes, different market offerings or "bundles" are required for different market segments within the same industry. Contrasted with the view that the firm is a production function that combines homogeneous, perfectly mobile "factors" of production, the

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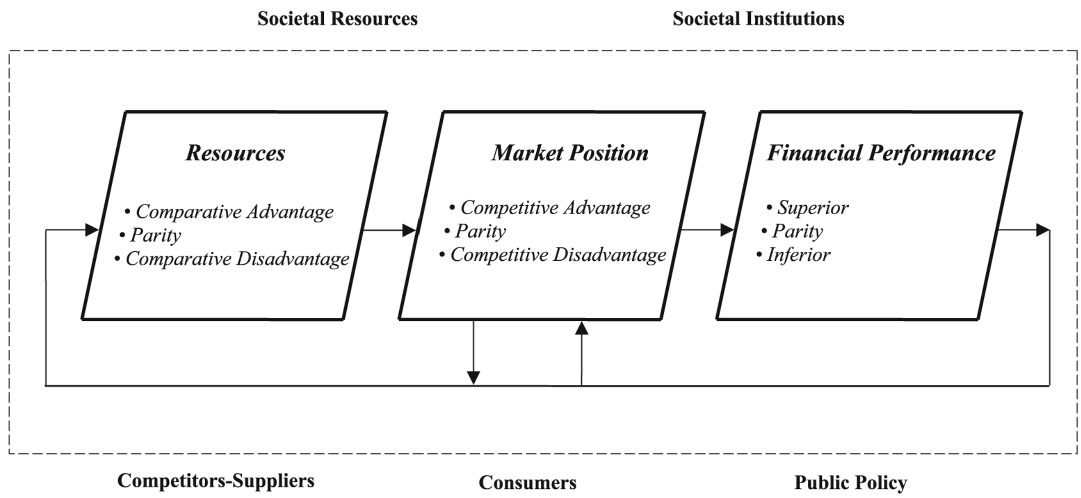
Volume 19 · Number 1 · 2004 · 5-22

Figure 1 A schematic of R-A theory



Note: 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 "signalling" relative market position, which, in turn signals relative resources

Source: Adapted from Hunt and Morgan (1997)

Figure 2 Competitive position matrix

Relative Resource Costs (Efficiency)		Relative Resource-Produced Value (Effectiveness): Lower	Parity	Superior
	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

Note: 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: Hunt and Morgan (1997)

resource-based view holds that the firm is a combiner of heterogeneous, imperfectly mobile entities that are labeled "resources." These heterogeneous, imperfectly mobile resources, when combined with heterogeneous demand, imply significant diversity as to the sizes, scopes, and levels of profitability of firms within the same industry. The resource-based theory of the firm parallels, if not undergirds, what Foss (1993) calls the "competence perspective" in evolutionary economics and the "capabilities" approaches of Teece and Pisano (1994) and Langlois and Robertson (1995).

As diagramed in Figures 1 and 2, R-A theory stresses the importance of: market segments; heterogeneous firm resources; comparative advantages/disadvantages in resources; and marketplace positions of competitive advantage/disadvantage. In brief, market segments are defined as intra-industry groups of consumers whose tastes and preferences with regard to an industry's output are relatively homogeneous. 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 marketing segment(s). Thus, resources are not just land, labor, and capital, as in neoclassical theory. Rather, resources can be categorized as financial (e.g. cash resources, access to financial markets), physical (e.g. plant, equipment), legal (e.g. trademarks, licenses), human (e.g. the skills and knowledge of individual employees), organizational (e.g. competences, controls, policies, culture), informational (e.g.

knowledge from consumer and competitive intelligence), and relational (e.g. relationships with suppliers and customers).

Each firm in the marketplace will have at least some resources that are unique to it (e.g. very knowledgeable employees, efficient production processes, etc.) that could constitute a comparative advantage in resources that could lead to positions of advantage (i.e. cells 2, 3, and 6 in Figure 2) in the marketplace. Some of these resources are not easily copied or acquired (i.e. they are relatively immobile). Therefore, such resources (e.g. culture and processes) may be a source of long-term competitive advantage in the marketplace.

Just as international trade theory recognizes that nations have heterogeneous, immobile resources, and it focuses on the importance of comparative advantages in resources to explain the benefits of trade, R-A theory recognizes that many of the resources of firms within the same industry are significantly heterogeneous and relatively immobile. Therefore, analogous to nations, some firms will have a comparative advantage and others a comparative disadvantage in efficiently and/or effectively producing particular market offerings that have value for particular market segments.

Specifically, as shown in Figure 1 and further explicated in Figure 2, when firms have a comparative advantage in resources they will occupy marketplace positions of competitive advantage for some market segment(s). Marketplace positions of competitive advantage then result in superior financial performance. Similarly, when firms have a comparative disadvantage in resources they will occupy positions of competitive disadvantage, which will then produce inferior financial performance. Therefore, firms compete for comparative advantages in resources that will yield marketplace positions of competitive advantage for some market segment(s) and, thereby, superior financial performance. As Figure 1 shows, how well competitive processes work is significantly influenced by five environmental factors: the societal resources on which firms draw, the societal institutions that form the "rules of the game" (North, 1990), the actions of competitors, the behaviors of consumers and suppliers, and public policy decisions.

Consistent with its Schumpeterian heritage, R-A theory places great emphasis on innovation, both proactive and reactive. The former is innovation by firms that, although motivated by the expectation of superior financial performance, is not prompted by specific competitive pressures – it is genuinely entrepreneurial in the classic sense of entrepreneur. In contrast, the latter is innovation that is directly prompted by the learning process of firms' competing for the patronage of market segments. Both proactive and reactive innovation contribute to the dynamism of R-A competition.

Firms (attempt to) learn in many ways – by formal market research, seeking out competitive intelligence, dissecting competitor's products, benchmarking, and test marketing. What R-A theory adds to extant work is how the process of competition itself contributes to organizational learning. As the feedback loops in Figure 1 show, firms learn through competition as a result of the feedback from relative financial performance signaling relative market position, which in turn signals relative resources. When firms competing for a market segment learn from their inferior financial performance that they occupy positions of competitive disadvantage (see Figure 2), they attempt to neutralize and/or leapfrog the advantaged firm(s) by acquisition and/or innovation. That is, they attempt to acquire the same resource as the advantaged firm(s) and/or they attempt to innovate by imitating the resource, finding an equivalent resource, or finding (creating) a superior resource. Here, "superior" implies that the innovating firm's new resource enables it to surpass the previously advantaged competitor in terms of either relative costs (i.e. an efficiency advantage), or relative value (i.e. an effectiveness advantage), or both.

Firms occupying positions of competitive advantage can continue to do so if:

- they continue to reinvest in the resources that produced the competitive advantage; and
- rivals' acquisition and innovation efforts fail.

Rivals will fail (or take a long time to succeed) when an advantaged firm's resources are either protected by such societal institutions as patents or the advantage-producing resources are causally ambiguous, socially or technologically complex, tacit, or have time compression diseconomies.

Competition, then, is viewed as an evolutionary, disequilibrium-provoking process. It 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. Once a firm's comparative advantage in resources enables it to achieve superior performance through a position of competitive advantage in some market segment(s), competitors attempt to neutralize and/or leapfrog the advantaged firm through acquisition, imitation, substitution, or major innovation. R-A theory is, therefore, inherently dynamic. Disequilibrium, not equilibrium, is the norm. In the terminology of Hodgson's (1993) taxonomy of evolutionary economic theories, R-A theory is non-consummatory: it has no end-stage, only a never-ending process of change. The implication is that, though market-based economies are moving, they are not moving toward some final state, such as a Pareto-optimal, general equilibrium.

Business strategy: an overview

Modern business strategy traces to the works on administrative policy of Andrews and his colleagues at Harvard (Andrews, 1971; Christianson *et al.*, 1982; Learned *et al.*, 1965). Viewing business strategy as the match a firm makes between its internal resources and skills and the opportunities and risks created by its external environment, they developed the strengths, weaknesses, opportunities, threats (SWOT) framework. In this framework, the main task of corporate-level strategy is identifying businesses in which the firm will compete. Alternative strategies for the firm are developed through an appraisal of the opportunities and threats it faces in various markets (i.e. external factors), and an evaluation of its strengths and weaknesses (i.e. internal factors). Good strategies are those that are explicit (for effective implementation) and effect a good match or "fit." Such strategies avoid environmental threats, circumvent internal weaknesses, and exploit opportunities through the strengths or distinctive competences of the firm. Since the work of Andrews and his colleagues, research on strategy has centered on three approaches: industry-based strategy, resource-based strategy, and competence-based strategy.

Industry-based strategy

An "external factors" approach, the industry-based theory of strategy, as exemplified by Porter (1980, 1985), turns industrial-organization economics "upside down" (Barney and Ouchi, 1986, p. 374). That is, what was considered anticompetitive and socially undesirable under neoclassical, industrial-organization economics, forms the basis for normative competitive strategy. In this view, choosing the industries in which to compete and/or altering the structure of chosen industries to increase monopoly power should be the focus of strategy because:

> Present research (i.e. Schmalensee (1985)) continues to affirm the important role industry conditions play in the performance of individual firms. Seeking to explain performance differences across firms, recent studies have repeatedly shown that average industry profitability is, by far, the most significant predictor of firm performance ... In short, it is now uncontestable that industry analysis should play a vital role in strategy formation (Montgomery and Porter, 1991, pp. xiv-xv).

Porter's (1980) "five forces" framework maintains that the profitability of a firm in an industry is determined by the:
(1) threat of new entrants to the industry;
(2) threat of substitute products or services;
(3) bargaining power of its suppliers;
(4) bargaining power of its customers; and
(5) intensity of rivalry among its existing competitors.

Therefore, because "a firm is not a prisoner of its industry's structure" (Porter, 1985, p. 7), strategy should aim at choosing the best industries (usually those that are highly concentrated) and/or altering industry structure by raising barriers to entry and increasing one's bargaining power over suppliers and customers.

After choosing industries and/or altering their structure, Porter (1980) advocates choosing one of three "generic" strategies:
(1) cost leadership;
(2) differentiation; or
(3) focus.

That is, superior performance can result from a competitive advantage brought about by a firm, relative to others in its industry, having a lower cost position, having its offering being perceived industry-wide as being unique, or having a focus on one particular market segment and developing a market offering specifically tailored to it. Although it is possible to pursue successfully more than one strategy at a time (and the rewards are great for doing so), "usually a firm must make a choice among them, or it will become stuck in the middle" (Porter, 1985).

After choosing one of the three generic strategies, internal factors come into play. Specifically, Porter (1985) argues that the firm should implement its strategy by managing well the activities in its "value chain," because "[t]he basic unit of competitive advantage ... is the discrete activity" (Porter, 1991, p. 102). If value is defined as "what buyers are willing to pay," then "superior value stems from offering lower prices than competitors for equivalent benefits or providing unique benefits that more than offset a higher price" (Porter, 1985, p. 4).

For Porter (1985), activities in the firm's value chain are categorized as either primary or support. Primary activities include inbound logistics, operations, outbound logistics, marketing and sales, and service. Support activities include procurement, technology development (improvement of product and process), human resource management, and firm infrastructure (e.g. general management, planning, finance). Doing these activities well improves gross margin, promotes competitive advantage, and thereby, produces superior financial performance. Therefore, the fundamental strategic imperative of industry-based strategy is that, to achieve competitive advantage and, thereby, superior financial performance, firms should: choose industries and/or modify their structure; select one of three generic strategies; and manage well the activities in their value chains.

Resource-based strategy

Because empirical studies show that highly concentrated industries are not more profitable than their less concentrated counterparts (Buzzell *et al.*, 1975; Gale and Branch, 1982; Ravenscraft, 1983), and similar studies show that the industry market share-profitability relationship is spurious (Jacobson and Aaker, 1985; Jacobson, 1988), many business strategy theorists have questioned the focus on external factors of industry-based theory. In particular, those labeled "resource-based" theorists argue for the primacy of heterogeneous and imperfectly mobile resources.

Resource-based theory in business strategy, an "internal factors" approach, traces to the long-neglected work of Penrose (1959). Avoiding the term "factor of production" because of its ambiguity, she viewed the firm as a "collection of productive resources" and pointed out: "it is never *resources* themselves that are the 'inputs' to the production process, but only the *services* that the resources can render" (Penrose, 1959, pp. 24-5; italics in original). Viewing resources as bundles of possible services that an entity can provide, "It is the heterogeneity ... of the productive services available or potentially available from its resources that gives each firm its unique character" (Penrose, 1959, pp. 75, 77). Therefore, contrasted with the neoclassical notion of an optimum size of firm:

> ... the expansion of firms is largely based on opportunities to use their existing productive resources more efficiently than they are being used (Penrose, 1959, p. 88).

Works drawing on Penrose (1959) to explicate resource-based theory in business strategy include the seminal articles of Lippman and Rumelt (1982), Rumelt (1984) and Wernerfelt (1984) in the early 1980s, followed by the efforts of Dierickx and Cool (1989), Barney (1991, 1992) and Conner (1991). The resource-based theory of strategy maintains that resources (to varying degrees) are both significantly heterogeneous across firms and imperfectly mobile. "Resource heterogeneity" means that each and every firm has an assortment of resources that is at least in some ways unique. "Imperfectly mobile" implies that firm resources, to varying degrees, are not commonly, easily, or readily bought and sold in

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the marketplace (the neoclassical factor markets). Because of resource heterogeneity, some firms are more profitable than others. Because of resource immobility, resource heterogeneity can persist through time despite attempts by firms to acquire the same resources of particularly successful competitors. Therefore, the fundamental strategic imperative of the resource-based view is that, to achieve competitive advantage and, thereby, superior financial performance, firms should seek resources that are valuable, rare, imperfectly mobile, inimitable, and non-substitutable.

Competence-based strategy

A second "internal factors" theory of business strategy is competence-based theory. The term "distinctive competence" traces to Selznick (1957) and was used by Andrews (1971) and his colleagues in the SWOT model to refer to what an organization could do particularly well, relative to its competitors. Stimulating the development of competence-based theory in the early 1990s were the works of Chandler (1990), Hamel and Prahalad (1989, 1994a, b), Prahalad and Hamel (1990, 1993), Reed and De Fillippi (1990), Lado *et al.* (1992) and Teece and Pisano (1994). Numerous other theoretical and empirical articles have been developing competence-based theory (Aaker, 1995; Bharadwaj *et al.*, 1993; Day and Nedungadi, 1994; Hamel and Heene, 1994; Heene and Sanchez, 1997; Sanchez *et al.*, 1996; and Sanchez and Heene, 1997, 2000).

Prahalad and Hamel (1990, p. 81) argue that "the firm" should be viewed as both a collection of products or SBUs and a collection of competences because:

> . . . in the long run, competitiveness derives from an ability to build, at lower cost and more speedily than competitors, the core competencies that spawn unanticipated products.

For Hamel and Prahalad (1994a), business strategy should focus on industry foresight and competence leveraging. Industry foresight involves anticipating the future by asking what new types of benefits firms should provide their customers in the next five to 15 years and what new competences should be acquired or built to offer such benefits. Resource-leveraging focuses on the numerator in the productivity equation (i.e. value of output/cost of input). Specifically, they argue that too much attention in analyses of firm productivity has been devoted to resource efficiency – the denominator – and too little on resource effectiveness – the numerator.

For competence-based theorists, productivity gains and competitive advantage come through the resource-leveraging that results from:

> . . . more effectively concentrating resources on key strategic goals . . . more efficiently accumulating resources . . . complementing resources of one type with those of another to create higher-order value . . . conserving resources whenever possible, and . . . rapidly recovering resources by minimizing the time between expenditure and payback (Hamel and Prahalad, 1994a, p. 160).

Therefore, the fundamental strategic imperative of the competence-based view of strategy is that, to achieve competitive advantage and, thereby, superior financial performance, firms should identify, seek, develop, reinforce, maintain, and leverage distinctive competences.

Marketing strategy

Marketing strategy, of course, overlaps significantly with business strategy. That is, strategic decisions in the functional areas of product, promotion, distribution, pricing, and the sales force, though significantly developed in marketing, are frequent topics in business strategy. Therefore, this section will focus on two distinctive schools of marketing strategy: MO and RM.

MO strategy

The idea of MO traces to the marketing concept, which has been considered a marketing cornerstone since its articulation and development in the 1950s and 1960s. The marketing concept maintains that:

- all areas of the firm should be customer-oriented;
- all marketing activities should be integrated; and
- profits, not just sales, should be the objective.

As conventionally interpreted, the concept's customer-orientation component, that is, knowing one's customers and developing products to satisfy their needs, wants, and desires, has been considered paramount.

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Historically contrasted with the production and sales orientations, the marketing concept is considered to be a philosophy of doing business that should be a major part of a successful firm's culture (Baker *et al.*, 1994; Wong and Saunders, 1993). For Houston (1986, p. 82), it is the "optimal marketing management philosophy." For Deshpande and Webster (1989, p. 3), "the marketing concept defines a distinct organizational culture . . . that put[s] the customer in the center of the firm's thinking about strategy and operations."

In the 1990s, the marketing concept morphed into MO. In this view, for Webster (1994, pp. 9-10), "The customer must be put on a pedestal, standing above all others in the organization, including the owners and the managers." Nonetheless, he maintains, "having a customer orientation, although still a primary goal, is not enough. Market-driven companies also are fully aware of competitors' product offerings and capabilities and how those are viewed by customers." At the same time, Narver and Slater (1990) and Slater and Narver (1994) were characterizing a MO as having the three components of customer orientation, competitor orientation, and interfunctional coordination, and Kohli and Jaworski (1990, p. 6) defined a MO as "the organizationwide *generation* of market intelligence pertaining to current and future customer needs, *dissemination* of the intelligence across departments, and organizationwide *responsiveness* to it" (italics in original). Therefore, the fundamental imperative of MO strategy is that, to achieve competitive advantage and, thereby, superior financial performance, firms should systematically gather information on present and potential customers and competitors and use such information in a coordinated way across departments to guide strategy recognition, understanding, creation, selection, implementation, and modification (Hunt and Morgan, 1995).

RM strategy

The strategic area of RM was first defined by Berry (1983, p. 25) as "attracting, maintaining, and – in multi-service organizations – enhancing customer relationships." Since then, numerous other definitions have been offered. For example, Berry and Parasuraman (1991) propose that "RM concerns attracting, developing, and retaining customer relationships" Gummesson (1999, p. 1). proposes that "RM is marketing seen as relationships, networks, and interaction." Grönroos (1996, p. 11) states that "RM is to identify and establish, maintain, and enhance relationships with customers and other stakeholders, at a profit, so that the objectives of all parties involved are met; and that this is done by a mutual exchange and fulfillment of promises." Also for him, RM is "marketing . . . seen as the management of customer relationships (and of relationships with suppliers, distributors, and other network partners as well as financial institutions and other parties)" (Grönroos, 2000, pp. 40-1). Sheth (1994) defines RM as "the understanding, explanation, and management of the ongoing collaborative business relationship between suppliers and customers." Sheth and Parvatiyar (1995a) view RM as "attempts to involve and integrate customers, suppliers, and other infrastructural partners into a firm's developmental and marketing activities," and Morgan and Hunt (1994) propose that "RM refers to all marketing activities directed towards establishing, developing, and maintaining successful relational exchanges."

Although the various perspectives on RM differ, one common element is that all view RM as implying that, increasingly, firms are competing through developing relatively long-term relationships with such stakeholders as customers, suppliers, employees, and competitors. Consistent with the Nordic School (Grönroos, 2000; Grönroos and Gummesson, 1985) and the IMP Group (Axelsson and Easton, 1992; Ford, 1990; Hakansson, 1982), the emerging thesis seems to be: to be an effective competitor (in the global economy) requires one to be an effective cooperator (in some network) (Hunt and Morgan, 1994). Indeed, for Sheth and Parvatiyar (1995a), the "purpose of RM is, therefore, to enhance marketing productivity by achieving efficiency and effectiveness."

It is important to point out that none of the previously cited authors naïvely maintains that a firm's efficiency and effectiveness are always enhanced by establishing relationships with all potential stakeholders. Clearly, advocates of RM recognize that firms should at times avoid developing certain relationships. As Gummesson (1994, p. 17) observes, "Not all relationships are important to all companies all the time . . . some marketing is best handled as transaction marketing." Indeed, he counsels: "Establish which relationship portfolio is essential to your specific business and make sure it is handled skillfully" (Gummesson, 1994, p. 17). Therefore, the fundamental strategic imperative of RM strategy is that, to achieve competitive advantage and, thereby, superior financial performance, firms should identify, develop, and nurture a relationship portfolio.

Strategy and R-A theory

This section argues that RA theory grounds business and marketing strategies. Each of the five schools of strategy will be discussed. We begin with resource-based strategy.

Resource-based strategy and R-A theory

As discussed, the fundamental imperative of resource-based strategy is that, to achieve competitive advantage and, thereby, superior financial performance, firms should seek resources that are valuable, rare, imperfectly mobile, inimitable, and non-substitutable. A positive theory of competition that could ground normative, resource-based strategy: must permit such a strategy to be successful; and contribute to explaining why and when (i.e. under what circumstances) such a strategy may be successful.

First, R-A theory permits resource-based strategy to be successful because it specifically adopts a resource-based view of the firm. As *P7* notes, firms are viewed as combiners of heterogeneous and imperfectly mobile resources – which is the fundamental tenet of the "resource-based view" (Conner, 1991). Indeed, competition for R-A theory consists of the constant struggle among firms for comparative advantages in such resources.

Note, however, that R-A theory adopts "a" resource-based view of the firm, not "the" view. As discussed by Schulze (1994), many resource-based theorists view competition as an equilibrium-seeking process. Indeed, firms are often described as seeking "abnormal profits" or "economic rents," which in the neoclassical tradition imply "profits different from that of a firm in an industry characterized by perfect competition" and "profits in excess of the minimum necessary to keep a firm in business in long-run competitive equilibrium." Thus, because perfect is posited as ideal, that is, it is perfect, viewing competition as equilibrium-seeking and the goal of the firm as abnormal profits or rents implies that the achievement of sustained, superior financial performance by firms is detrimental to social welfare.

In contrast R-A theory maintains that competition is dynamic and disequilibrium-provoking (see *P9*). In a critique of resource-based strategy, Priem and Butler (2001, p. 35) argue for dynamic theory and suggest that in order for resource-based view "to fulfill its potential in strategic management, its idea must be integrated with an environmental demand model." They point out that R-A theory's incorporation of heterogeneous demand in a dynamic theory is in the right direction. Barney (2001) agrees that a dynamic analysis using the resource-based view of the firm is important for the further development of strategic research, and he cites R-A theory as an example of an evolutionary approach that incorporates the necessary dynamics.

Also in contrast, R-A theory denies that perfect competition is the ideal competitive form. The achievement of superior financial performance – both temporary and sustained – is pro-competitive when it is consistent with and furthers 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. It is anti-competitive when it is inconsistent with and thwarts this process. Therefore, R-A theory maintains that when superior financial performance results from pro-competitive ("pro" in the sense of R-A theory) factors, it contributes to social welfare because the dynamic process of R-A competition furthers productivity and economic growth through both the efficient allocation of scarce tangible resources and, more importantly, the creation of new tangible and intangible resources.

Specifically, the ongoing quest for superior financial performance, coupled with the fact that all firms cannot be simultaneously superior, implies that the process of R-A competition will not only allocate resources in an efficient manner, but also that there will be both proactive and reactive innovations developed that will contribute to further increases in efficiency and effectiveness. Indeed, it is the process of R-A competition that provides an important mechanism for firms to learn how efficient-effective, inefficient-ineffective, they are (see the learning, feedback loops in Figure 1). Similarly, it the quest for superior performance by firms that results in the proactive and reactive innovations that, in turn, promote the very increases in firm productivity that constitute the technological progress that results in economic growth.

As to why and when a strategy of seeking resources that are "valuable, rare, imperfectly mobile, inimitable, and nonsubstitutable" will be successful, consider the "valuable" criterion. An entity may be valuable in many ways. For example, a firm's assets may include a section of land, or a building, or a painting that has value in the marketplace (and appears in the firm's balance sheet). But what R-A theory highlights is that marketplace value is not the key for understanding the nature of competition. Rather, a resource is "valuable" when it contributes to a firm's ability to efficiently and/or effectively produce a marketplace offering that has value for some market segment or segments. And, R-A theory maintains, consumer perceptions of value are dispositive. That is, consumer perceptions are the ultimate authority as to the value of a firm's market offering.

Now consider the recommendation that valuable resources should be rare. Entities may be "rare" in many ways. What R-A theory highlights and emphasizes is that a valuable, "rare" resource is one that enables a firm, when competing for a market segment's patronage, to move upward and/or to the right in the marketplace position matrix (Figure 2). That is, valuable, rare resources enable firms to compete by being, relative to competitors, more efficient and/or more effective.

Now, in light of R-A theory's emphasis on proactive and reactive innovation, consider the recommendation that resources should be "inimitable and non-substitutable." To the list, R-A theory adds "non-surpassable" (Hunt, 1999). Firms occupying positions of competitive disadvantage (cells 4, 7, and 8 in Figure 2) will be motivated to engage in three forms of reactive innovation:
(1) imitating the resource of an advantaged competitor;
(2) finding (creating) an equivalent resource; or
(3) finding (creating) a superior resource.

Many authors have tended to focus on the equilibrating behavior of resource imitation and substitution. Although imitation and substitution are important forms of competitive actions, R-A theory highlights the fact that reactive innovation can also prompt disequilibrium-provoking behaviors. That is, reactive innovation in the form of finding (creating) a superior resource results in the innovating firm's new resource assortment enabling it to surpass the previously advantaged competitor in terms of either relative efficiency, or relative value, or both. By leapfrogging competitors, firms realize their objective of superior returns, make competition dynamic, shape their environments, and renew society. In so doing, the process of reactive innovation stimulates the kinds of major innovations described as creative destruction by Schumpeter (1950). Imitation brings parity returns; parity returns are never enough.

Competence-based strategy and R-A theory

The fundamental imperative of competence-based strategy is that, to achieve competitive advantage and, thereby, superior financial performance, firms should identify, seek, develop, reinforce, maintain, and leverage distinctive competences. Organizational competences, all strategy theorists agree, have components that are significantly intangible (e.g. knowledge and skills) and are not owned by the firm (i.e. not capable of being sold by the firm, except, of course, by selling the division of the firm that houses the competence). Recall that R-A theory acknowledges that both tangible and intangible entities can be resources. Recall also that entities need not be owned by firms to be resources. Rather they need only be available to firms.

P6 classifies firm resources as financial, physical, legal, human, organizational, informational, and relational. For R-A theory, therefore, a firm competence is a kind of organizational resource. Specifically, competences are "higher order" resources that 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 are distinct resources because they exist as distinct packages of basic resources. 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, R-A theory permits competence-based strategy to be successful.

Differences in specific competences explain why some firms are simply better than others at doing things (Hamel and Heene, 1994; Heene and Sanchez, 1997; Langlois and Robertson, 1995; Sanchez and Heene, 1997; Sanchez *et al.*, 1996). For example, firms can have superior entrepreneurial competences (Foss, 1993), research and development competences (Roehl, 1996), production competences (Prahalad and Hamel, 1990), marketing competences (Conant *et al.*, 1990; Day, 1992) and competitive agility competences (Nayyan and Bantel, 1994).

Highlighted by R-A theory is the role of renewal competences, such as those described by Teece and Pisano (1994) and Teece *et al.* (1997) as "dynamic capabilities," by Dickson (1996) as "learning how to learn," and by Hamel and Prahalad (1994a, b) as "industry foresight." Specifically, renewal competences prompt proactive innovation by enabling firms to:

- anticipate potential market segments (unmet, changing, and/or new needs, wants, and desires);
- envision market offerings that might be attractive to such segments; and
- foresee the need to acquire, develop, or create the required resources, including competences, to produce the envisioned market offerings.

Therefore, because firms are not viewed by R-A theory as just passively responding to changing environment or looking for the best "fit" between existing resources and market "niches," it contributes to explaining why and when a firm developing a renewal competence will be successful. A strategy of developing a renewal competence will be successful (or more successful) when the marketplace is turbulent, competitors are "sleepy," and/or the proactive innovations spawned by a renewal competence promote turbulence.

Industry-based strategy and R-A theory

The fundamental imperative of industry-based strategy is that, to achieve competitive advantage and, therefore, superior financial performance, firms should:

- choose industries and/or modify their structure;
- select one of three generic strategies; and
- manage well the activities in its value chain.

Of course, as discussed, R-A theory rejects the notion that "choosing industry" is the key factor for strategy success. Indeed, empirical works on financial performance show clearly that "firm effects" dominate "industry effects" and competition is market segment by market segment. However, R-A theory does contribute to understanding when a strategy of expanding the firm's offerings to new segments in the same industry or a new industry will be successful. Such a strategy is more likely to be successful when the resources that the firm has (or can reasonably acquire or develop) are believed to be such that they enable it to produce a market offering that will occupy cells 2, 3, or 6 in Figure 2. That is, R-A theory highlights the role of resources in implementing a segment-based variant of industry-based strategy.

R-A theory also addresses the issue of the propriety of the recommendation that firm strategy should be directed at altering industry structure. As Fried and Oviatt (1989) point out, the "alter structure" recommendation is often (if not most often) interpreted as taking actions that will drive competitors out of the marketplace in order to increase industry concentration and, thereby, achieve superior financial performance. Therefore, the "alter structure" recommendation is customarily interpreted as advocating predatory practices – in potential violation of antitrust law.

As shown in Figure 1, R-A theory views competition as "embedded" (Granovetter, 1985) within, for example, societal institutions and public policy. It is true that firms are often harmed by the actions of competitors. For example, if a firm introduces a new product at competitive prices that performs better than its rivals, then rival firms' sales and profits will likely be affected. However, R-A theory maintains that the harm to competitors is, or ought to be, a by-product of the process of competition, not the focus of competitors' actions (Arnett and Hunt, 2002). The goal of R-A competition is superior financial performance, not harming competitors. Because the goal can be achieved through competing for comparative advantages in resources, success neither implies nor depends on violating norms of public policy.

Finally, consider the recommendation of industry-based strategy that firms should perform well those activities in their value chains. Unfortunately, the value chain metaphor has limited applicability beyond manufacturing firms. Service firms and knowledge-based firms are poorly represented by linear, input-output chains of activities. However, though R-A theory minimizes the role of value chains, it highlights the importance of value creation as a key component of strategy. Indeed, value creation is central to Figure 2, the marketplace position matrix. Furthermore, R-A theory provides an explanation for the claim that some firms are superior to others in performing value creation activities: superior-performing firms in terms of value creation have a comparative advantage in resources, for example, specific competences related to specific value-producing activities.

MO strategy and R-A theory

The fundamental imperative of MO strategy is that, to achieve competitive advantage and superior financial performance, firms should systematically gather information on present and potential customers and competitors and use such information in a coordinated way to guide strategy recognition, understanding, creation, selection, implementation, and modification. R-A theory permits MO strategy to succeed because *P5* assumes that the firm's information is imperfect and *P6* indicates that information can be a resource. That is, the systematic acquisition of information about present and potential customers and competitors and the coordinated use of such information to guide strategy may contribute to the firm's ability to efficiently and/or effectively produce market offerings that have value for some market segments.

If a firm is market-oriented and its competitors are not, then an MO strategy may be a resource that moves the firm's marketplace position upward and to the right in Figure 2. Note, however, *P5* also points out that information acquisition is costly. The implication is that if implementing an MO strategy is too costly, then the firm's position in Figure 2 will shift downward toward positions of competitive disadvantage. Therefore, whether an MO strategy provides a resource that leads to a position of competitive advantage in Figure 2 depends on the relative value/relative cost ratio of MO implementation.

Because it consists of a synergistic combination of more basic resources (Hunt and Lambe, 2000), the effective implementation of a MO may be viewed as an organizational competence. To implement an MO strategy, firms deploy tangible resources, such as information systems to store, analyze, and disseminate information about competitors and customers. In addition, firms use intangible resources to implement MO. That is, organizational policies must be in place to encourage MO action, and managers must have the knowledge and experience required to utilize customer and competitor information effectively.

Specifically, a MO may be viewed as a kind of renewal competence. That is, a competence in

MO will prompt proactive innovation by enabling firms to anticipate potential market segments, envision market offerings that might be attractive to such segments, and prompt the need to acquire, develop, or create the required resources to produce the offerings. Furthermore, a competence in MO will assist efforts at reactive innovation because it provides valuable information about existing competitors and customers.

RM strategy and R-A theory

The fundamental imperative of RM strategy is that, to achieve competitive advantage and, thereby, superior financial performance, firms should identify, develop, and nurture a relationship portfolio. Consider what is required for a theory of competition to permit a RM strategy to succeed. First, because relationships are intangible, the theory must permit intangibles to be resources. Second, because relationships are not owned (and, therefore, firms cannot buy and sell relationships in the "factor" markets), firm ownership must not be a criterion for an entity to be a firm resource. Third, because each relationship has unique characteristics (and, therefore, one cannot take the first derivative of any equation in which a relationship appears), unique entities must be allowed. Fourth, because (at least some) relationships involve cooperation among firms in order for them to compete, the theory must permit some relationships to be pro-competitive (and not presumptively assume all instances of cooperation to be anti-competitive collusion).

Now consider R-A theory with regard to its view of resources. A firm resource is any tangible or intangible entity available to the firm that enables it to produce efficiently and/or effectively a market offering that has value for some market segment(s). Therefore, R-A theory satisfies criteria one and two. Now recall that R-A theory views firm resources as significantly heterogeneous (*P7*). Therefore, it satisfies criterion three. Finally, because R-A theory assumes that (at least some) firm resources are imperfectly mobile (*P7*), yet such resources can nonetheless enable firms to produce offerings efficiently and/or effectively, the theory satisfies criterion four. That is, at least some cooperative relationships are relational resources (*P6*), making them pro-competitive.

As discussed in Hunt (1997a), R-A theory implies that firms should periodically conduct a strategic resource audit as a standard part of its corporate planning. The strategic resource audit should pay close attention to the competences of the organization and the role that relationships with suppliers, customers, employees, and competitors can play in enhancing the total "mix" of strategic competences. From the perspective of RM, therefore, firms should develop a relationship portfolio or "mix" that complements existing competences and enables it to occupy positions of competitive advantage, as identified in Figure 2. However, it is important to recognize that relationship portfolios are developed not selected.

Because it conjures the image of being like a portfolio of stocks, Gummesson's (1999) concept of a relationship portfolio has the same systemic ambiguity as the marketing mix. The standard, textbook versions of the marketing mix concept often imply that some marketing manager sits down at a specific point in time and selects both a target market and a particular combination of price, product, place, and promotion that is believed to be optimal. Although this may occur on rare occasions, much more commonly these decisions are made sequentially, that is, through time. For example, it could well be the case that the first decision actually made was the nature of the product. Then a market segment is targeted for the product. Following that, the price, channels of distribution, and promotional programs are developed. The point is that, in contrast with standard textbook treatments, marketing mixes are most often developed through time, not selected at a point in time.

A similar ambiguity emerges in the concept of a relationship portfolio. Even more so than the marketing mix, relationship portfolios are not selected at a point in time, but developed through time. Indeed, good relationships take time to develop (Lambe *et al.*, 2002). Therefore, though it is important to develop a relationship portfolio that complements existing organizational competences in an optimal manner, and it is important to plan strategically for such relationships, the relationships that comprise the relationship portfolio can only be developed through time. Though both are portfolios, the relationship portfolio differs dramatically from a portfolio of stocks, for it is at least possible to select a portfolio of stocks at a single point in time. Consequently, a RM strategy will be more successful when it is a long-term strategy.

Conclusion

Determining the strategic thrust of the firm, it may be argued, is the principal task of top management. This task is aided by recent theories of business and marketing strategy, including the normative imperatives based on industry factors, resource factors, competences, MO and RM. Choosing wisely from among the various theories of strategy requires an accurate understanding of the contexts of competition. R-A theory, an evolutionary, disequilibrium-provoking, process theory of competition, provides that understanding.

Note

1 This article is adapted from Chapter 9 of Hunt (2002a).

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Executive summary and implications for managers and executives

This summary has been provided to allow managers and executives a rapid appreciation of the content of this article. Those with a particular interest in the topic covered may then read the article in toto *to take advantage of the more comprehensive description of the research undertaken and its results to get the full benefit of the material present*

Determining the strategic thrust of the firm

In this age of hyper-competition, determining the strategic thrust of the firm is the principal task of top management. This complex task is now aided by recent theories of business and marketing strategy, such as those guidelines that are based on theories that focus on industry factors, resource factors, competences, market orientation and relationship marketing.

Gaining a better understanding of competition

Choosing wisely from among the various theories of strategy requires an accurate understanding of the differing contexts of competition. Hunt and Derozier argue that resource-advantage theory, an evolutionary, disequilibrium-provoking process theory of competition, provides a means for understanding the contexts of recent forms of competition.

Resource-advantage theory views competition as the constant struggle among firms for comparative advantages in resources that will result in marketplace positions of competitive advantage. Comparative

Journal of Business & Industrial Marketing
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advantages in resources could include, for example, very knowledgeable employees or particularly efficient production processes. When these resources are not easily copied or acquired, they may be a source of long-term competitive advantage. Companies in positions of competitive advantage, the authors argue, will then produce superior financial performance. Conversely, some firms will have a comparative disadvantage in producing goods or services for the marketplace. These firms will then suffer inferior financial performance.

Five environmental factors affect how well competitive processes work. They are the resources within society on which firms draw, the social institutions that form the "rules of the game", the actions of competitors, the behaviours of consumers and suppliers, and public policy decisions.

Firms learn through competition

According to resource-advantage theory, firms learn through competition as a result of the feedback from relative financial performance signalling relative market position, which in turn signals relative resources. When firms competing for a market segment learn from their inferior financial performance that they are at a competitive disadvantage, they attempt to put matters right by acquiring the same resource as their more successful competitors, or they try to innovate by imitating the resource, finding an equivalent resource or creating a superior resource, so they can leap-frog the competition.

Firms that are at a competitive advantage can remain so only if they continue to reinvest in the resources that produced the advantage in the first place, or if rivals' acquisition and innovation efforts fail. Rivals will fail – or, at least, take a long time to succeed – when patents protect an advantaged firm's resources. Rivals may also fail if, for example, it is hard to pin-point which resources give rise to the marketplace position of competitive advantage, or if the competitive advantage results from resources that are technologically or socially complex.

Disequilibrium, rather than equilibrium, is therefore the norm under resource-advantage theory. There is no end stage, only a never-ending process of change.

Hunt and Derozier argue that managers who understand resource-advantage theory will be able to choose wisely their strategies for competing in the age of hyper-competition.

(A précis of the article "The normative imperatives of business and marketing strategy: grounding strategy in resource-advantage theory". Supplied by Marketing Consultants for Emerald.)