RESOURCES-ADVANTAGE THEORY AND EMBEDDEDNESS: EXPLAINING R-A THEORY'S EXPLANATORY SUCCESS

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In the mid-1990s, a new theory of competition, labeled "resource-advantage theory," was proposed in the marketing literature. R-A theory's explanatory and predictive successes have resulted in its being well received by both marketing and nonmarketing scholars. This article examines the characteristics of resource-advantage theory that have enabled the theory to successfully explain and predict marketing phenomena. Specifically, the thesis that R-A theory is a moderately socialized, embedded theory of competition is explored by focusing on the theory's ability to provide a theoretical foundation for the frequently made claim that, at least in some circumstances, social structures and trust-based governance can be competition-enhancing.

INTRODUCTION

Because the major role of theory is to increase scientific understanding through systematized structures capable of both explaining and predicting phenomena, the worth of any theory should be judged by how well it accomplishes these objectives. In the mid-1990s, a new theory of competition, labeled "resource-advantage theory" (hereafter, R-A theory), was proposed in the marketing literature (Hunt and Morgan 1995, 1996, 1997). Since then, R-A theory's explanatory and predictive successes have resulted in its being well received by both marketing and nonmarketing scholars. For example, Lusch (2000) maintains that R-A theory is useful for students, managers, and public policy makers. Falkenberg (2000), referring to its treatment in Hunt (2000a), suggests that R-A theory will be useful as a tool to understand markets and competition, and that the theory will inspire future research. In addition, he predicts that the theory will become required reading for marketing and strategy students. Savitt (2000, pp. 73-76) suggests that R-A theory is "one of the most provocative treatises to come along in some time" and "should stimulate much research." Hodgson (2000, p. 68) describes it as an "important and compelling" theory. Schlegelmilch (2002, p. 226) maintains that the theory is "a treasure-chest for identifying promising future research avenues." As to its role in marketing, Hunt (2002) argues that R-A theory is toward a general theory of marketing.

Rejecting the "silo" approach of many theories, R-A theory is a dynamic, process theory of competition that is interdisciplinary in the sense that it has been developed in a number of different disciplines. These disciplines include marketing (Hunt and Morgan 1995, 1996, 1997; Hunt 1997d, 1999, 2000a,d, 2001a, 2002; Arnett and Laverie 1999; Falkenberg 2000; Foss 2000; Hodgson 2000; Savitt 2000; Hunt and Arnett 2001; Hunt, Lambe, and Wittmann 2002), management (Hunt 1995, 2000c; Hunt and Lambe 2000), economics (Hunt 1997a,b,c, 2000b, 2001b), general business (O'Keeffe, Mavondo, and Schroeder 1996; Hunt 1998; Hunt and Duhan 2001), and ethics (Arnett and Hunt 2002). R-A theory is also interdisciplinary in that it draws on, and has affinities with, a number of other theories and research traditions, including evolutionary economics, "Austrian" economics, differential advantage theory, the historical tradition, industrial-organizational theory, the resource-based tradition, the competence-based tradition, institutional economics, transaction cost economics, and economic sociology (Hunt 2000a).
As to its explanatory and predictive successes, research suggests that R-A theory contributes to explaining: (1) firm diversity (Hunt and Morgan 1995; Hunt 1997a), (2) observed differences in quality, innovativeness, and productivity between market-based and command economies (Hunt 1995, 1997b; Hunt and Morgan 1995, 1997), (3) why competition in market-based economies is dynamic (Hunt and Morgan 1995, 1997; Hunt and Duhan 2001), (4) the knowledge-discovery process of competition (Hunt 2000c), (5) why competition is both efficiency and effectiveness seeking (Hunt and Duhan 2001), (6) how path dependence effects can occur (Hunt and Morgan 1996), and (7) the growth pattern of the former soviet union (Hunt 1995). Furthermore, R-A theory predicts correctly: (1) financial performance diversity (Hunt 2000a,c), (2) that technological progress dominates the K/L (capital/labor) ratio in economic growth (Hunt 2000a), (3) that increases in economic growth cause increases in investment (Hunt 2000a), (4) that most of the technological progress that drives economic growth stems from the actions of profit-driven firms (Hunt 2000a), and (5) that R-A competition can prevent the economic stagnation that results from capital deepening (Hunt 2000a).

Why has R-A theory been so successful in explaining and predicting market phenomena? That is, what characteristics of R-A theory result in its explanatory and predictive successes? Hunt and Arnott (2001) provide one answer. They suggest that its successes are due, in part, to R-A theory’s descriptively realistic approach. That is, R-A theory’s premises provide a realistic description of the process of competition, and, therefore, the theory incorporates market realities that other theories either ignore or discount. For example, R-A theory views a firm’s relationships with its suppliers and consumers as an important basic resource that can lead to more advantageous positions in the marketplace and, in turn, superior financial performance.

A second characteristic of R-A theory that contributes to its successes, we argue, is that the theory is a moderately socialized, embedded theory of competition. As a result, R-A theory allows for the possibility that social relations and social structures can (and often do) affect competition (both negatively and positively). This article explores the thesis that R-A theory is a moderately socialized, embedded theory of competition. It does so by focusing on the theory’s ability to provide a theoretical foundation for the frequently made claim that, at least in some circumstances, social structures and trust-based governance can be competition-enhancing. Our discussion, therefore, will further explicate the specific characteristics of R-A theory that contribute to its explaining and predicting market phenomena well.

This article is organized as follows. First, extant theories of competition in mainstream economics are examined to show why none provides a theoretical foundation for the claim that social structures and trust-based governance can be competition-enhancing. That is, in the words of Granovetter (1985), none is “embedded.” Second, a set of criteria, based significantly on DiMaggio (1990), DiMaggio and Zuckin (1990), Donaldson et al. (1988), Fliedstein (1996), Granovetter (1985, 1990, 1992, 1994), Polanyi, Arensberg, and Pearson (1971), Uzzi (1996), and Zald (1987), are developed that should be met by any theory that attempts to ground theoretically the “social structures” claim. These “embeddedness” criteria are argued to be: (a) the all-seeing, all-knowing hyperrationality of neoclassical theory must be rejected; (b) opportunistic behavior should be assumed to be neither universal nor nonexistent; (c) the institutions and culture within which economic actors are embedded should influence economic action; (d) the outcomes of economic behaviors, both efficient and inefficient, should result from the dynamic processes that the theory explicates; (e) human action should not be over-socialized; (f) the concrete social relations of economic actors should have the capacity to either inhibit or enhance the likelihood of attaining desirable economic outcomes; and (g) the trust resulting from concrete social relations should be viewed as substitutes for the institutions invoked by “new” institutional economics. Third, it is shown that, because it accommodates the seven “embeddedness” criteria, R-A theory can ground theoretically the view that social structures and trust-based governance may be competition-enhancing. Our discussion starts by examining why neoclassical economic theory cannot provide a theoretical foundation for viewing social structures as competition-enhancing.

**MAINSTREAM ECONOMIC THEORY AND COMPETITION-ENHANCING SOCIAL STRUCTURES**

The thesis that social structures (i.e., networks of social relations) can be pro-competitive is foreign to neoclassical economic theory. For mainstream economics, “competition” means perfect competition, with the full panoply of required conditions—arms-length transactions included. To become more competitive, the firms in an industry must move toward or become closer to perfect competition. However, when firms form networks, they move away from, not toward, the atomized firms in perfect competition. Furthermore, since perfect competition is perfect, not only is a move toward network competition presumptively anti-competitive (moving away from competition) but societally undesirable on efficiency grounds as well. Therefore, the view that certain social structures can be pro-competitive is, for neoclassical theory, meaningless at best and pernicious at worst.

Similarly, the “new” institutional economics (NIE) can neither provide a theoretical foundation for the competition-enhancing capability of social structures nor ground trust-based governance. Even though Williamson (1994, p. 97) states: “I concur with Granovetter that to craft credible commitments... is to create functional substitutes for trust,” he defends the...
assumption of universal opportunism in NIE. For him, without the assumption of opportunism, "the study of economic organization is pointless" (Williamson 1981, p. 1545), for "the interesting problems of comparative economic organization vanish if . . . faithful stewardship is ascribed to economic actors" (Williamson 1996, p. 365) and "the study of economic organization is better served by treating economic organization without reference to trust" (Williamson 1993, p. 99). Therefore, regarding social structure and trust-based governance, Williamson (1994, p. 85) challenges: "What are the deeper insights? What are the added implications?" For him, the concepts of social structure and embeddedness can provide none.

In fact, no theory of the fundamental nature of competition in mainstream economics can ground the thesis that social structures and trust-based governance can be competition-enhancing. Granovetter (1985) reveals why extant theories fail to provide theoretical foundations for the competition-enhancing role of social structures, and he provides some guidelines for developing such a theory.

**UNDER-AND OVERSOCIALIZATION**

Granovetter (1985, pp. 483-484) decries the atomized, undersocialized conception of human action in neoclassical economics because it either "disallow[s] by hypothesis any impact of social structure and social relations on production, distribution, or consumption," or "the fact that actors may have social relations with one another has been treated . . . as a frictional drag that impedes competitive markets." He notes that the boundedly rational conception of action in NIE, associated with Williamson (1975, 1981, 1985), Alchian and Demsetz (1973), and others, continues the undersocialized tradition by restricting institutions to the role of dependent variables. By so doing, he argues: (1) NIE analyses positing that extant institutions result inexorably from efficiently solving certain economic problems "fail the elementary tests of a sound functional explanation laid down by Robert Merton in 1947" (Granovetter 1985, p. 488); (2) NIE’s Darwinian selection processes posited to result in efficient solutions are "neither an object of study nor even a falsifiable proposition but rather an article of faith" (Granovetter 1985, p. 503); and (3) NIE’s undersocialized conception guarantees that it cannot account for the widespread existence, let alone the importance, of trust in economic affairs. Indeed, the elaborate institutional arrangements NIE argues for "do not produce trust but instead are a functional substitute for it" (Granovetter 1985, p. 489).

Being even-handed, Granovetter (1985) also chastises works that adopt an oversocialized conception of human action. Citing Duesenberry’s (1960, p. 233) quip that "economics is all about how people make choices; sociology is all about how they don’t have any choices to make," he argues that solving the problem of undersocialized accounts of human action in economic theories does not imply ignoring the importance of the rational pursuit of self-interest in for-profit organizations, for "the assumption of rational action . . . is a good working hypothesis that should not be easily abandoned" (Granovetter 1985, p. 506). Instead, he advocates an embedded, moderately socialized view of economic and social relations:

A fruitful analysis of human action requires us to avoid the atomization implicit in the theoretical extremes of under- and oversocialized conceptions. Actors do not behave or decide as atoms outside a social context, nor do they adhere slavishly to a script written for them by the particular intersection of social categories that they happen to occupy. Their attempts to purposive action are instead embedded in concrete, ongoing systems of social relations (Granovetter 1985, p. 487).

Therefore, the reason why no theory of competition in mainstream economics can ground the thesis that social structures—Granovetter’s "concrete, ongoing systems of social relations"—can be competition-enhancing is that extant theories of competition are either over- or undersocialized. What is needed, Granovetter (1985) argues, is a moderately socialized, embedded theory of competition.

**Criteria for a Moderately Socialized Theory of Competition**

Although the works of early scholars (e.g., Max Weber and Emile Durkheim) in economic sociology recognized that economies are embedded in broader social structures, the concept of embeddedness is often credited to Polanyi et al. (1971, p. 250), who argued that "[t]he human economy . . . is embedded and enmeshed in institutions, economic and noneconomic." For them, therefore, institutions of all kinds (i.e., "economic and noneconomic") affect economic action. A narrower conceptualization of embeddedness is articulated by Granovetter (1990), for whom it means "that economic action, outcomes, and institutions are affected by actors, personal relations, and by the structure of the overall network of relations" (Granovetter 1990, p. 98). Granovetter’s view, then, implies that social structures are independent variables and economic action, outcomes, and institutions are dependent variables. DiMaggio and Zukin (1990), in contrast, return to the original conceptualization by Polanyi et al. (1971) and argue for a broader perspective on embeddedness by pointing out that economic action is embedded within both social structures and culture. Here, we adopt the broader conceptualization of Polanyi et al. (1971) and DiMaggio and Zukin (1990). That is, economic action is not only embedded in social structures, but also in institutions and culture.

As a point of departure, we note that none of the writers on embeddedness delineate a specific set of requisites that a theory of competition would have to satisfy to qualify as moderately socialized or embedded. However, the works of

First, though the pursuit of financial performance by for-profit organizations should be prominent, the all-seeing, all-knowing hyperrationality of neoclassical theory should be rejected. As Zald (1987, pp. 705-706) puts it: “To deny profit maximization and hyperrationality is one thing; to deny . . . that a search for profits and efficient modes of production drives much of organizational choice is quite another.” Second, opportunistic behavior by economic actors should be assumed to be neither universal nor nonexistent. As Etzioni (1988) and Donaldson (1990) argue, the universal opportunism assumption is not only empirically false but “guilt by axiom.” Third, as Polanyi et al. (1971) and DiMaggio (1990) suggest, the institutions and culture within which economic actors are embedded should influence economic action. Fourth, the outcomes of economic behaviors, both efficient and inefficient, should result from dynamic processes that the theory explicates, not from the cavalier invocation of Darwinian, “as if” metaphors. As Fligstein (1996, p. 657) observes, works in economic sociology “have challenged the neoclassical economists’ view that markets select efficient forms which, over time, converge to a single form.” Fifth, human action should not be oversocialized, that is, just passively responding to the environment. Indeed, neither individuals nor firms “adhere slavishly to script written for them by the particular intersection of social categories that they happen to occupy” (Granovetter, 1985, p. 487). Sixth, as per Uzzi (1996), the concrete social relations of economic actors should have the capacity to either inhibit or enhance the likelihood of attaining desirable economic outcomes, rather than be ignored or viewed exclusively as “friction.” Seventh, as even Williamson (1994, p. 85) acknowledges (but holds as not providing “deeper insights”), the trust resulting from concrete personal relations should be viewed as a substitute for the institutions invoked by NIE.

Although no current theory of competition in mainstream economics satisfies the seven criteria and, therefore, can provide a theoretical foundation for competitive-enhancing social structures and trust-based governance, R-A theory, we argue, is able to accommodate them. To explore R-A theory’s ability to provide a theoretical foundation for the “social structures” claim, a brief overview of R-A theory is provided. Then, the foundations of R-A theory (see Table 1) and its structure (see Figures 1 and 2) are shown to satisfy the embeddedness criteria, that is, it is neither over- nor undersocialized. Then, we show explicitly, using strategic alliances in the automobile industry as an example, how R-A theory accommodates the contingency nature of trust-based governance systems and network competition. Specifically, we note that some (but not all) kinds of collaborative arrangements or partnerships contribute to firms’ competition-enhancing relational resources. The article concludes with a discussion of some of the managerial implications of R-A theory.

AN OVERVIEW OF R-A THEORY

R-A theory is a general theory of competition that describes the process of competition. As a result, exploring its implications does not involve solving sets of equations, as in neoclassical, mainstream economics. As Burt (1992, pp. 5-6) emphasizes:

"Competition is a process not a result. With important exceptions, most theories of competition concern what is left when competition is over. They are an aside in efforts to answer the practical question of how to maximize producer profit. . . . The alternative is to start with the process of competition and work toward its results. This is a less elegant route for theory, but one that veers closer to the reality of competition as we experience it."

Therefore, R-A theory is explicated using a descriptive approach. Figures 1 and 2 provide a schematic depiction of R-A theory’s key constructs and Table 1 provides its foundational premises. Our overview will follow closely the theory’s treatment in Hunt (2000a).

The Structure 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 (1) relatively durable, that is, that can exist, at least potentially, through long periods of time, and (2) heritable, that is, that 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.

TABLE 1
FOUNDATIONAL PREMISES OF PERFECT COMPETITION AND RESOURCE-ADVANTAGE THEORY

<table>
<thead>
<tr>
<th>P1. Demand is:</th>
<th>Perfect Competition Theory</th>
<th>Resource-Advantage Theory</th>
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<tr>
<td></td>
<td>heterogeneous across industries, homogeneous within industries, and static.</td>
<td>heterogeneous across industries, heterogeneous within industries, and dynamic.</td>
</tr>
<tr>
<td>P2. Consumer information is:</td>
<td>perfect and costless.</td>
<td>imperfect and costly.</td>
</tr>
<tr>
<td>P3. Human motivation is:</td>
<td>self-interest maximization.</td>
<td>constrained self-interest seeking.</td>
</tr>
<tr>
<td>P4. The firm's objective is:</td>
<td>profit maximization.</td>
<td>superior financial performance.</td>
</tr>
<tr>
<td>P5. The firm's information is:</td>
<td>perfect and costless.</td>
<td>imperfect and costly.</td>
</tr>
<tr>
<td>P6. The firm's resources are:</td>
<td>capital, labor, and land.</td>
<td>financial, physical, legal, human, organizational, informational, and relational.</td>
</tr>
<tr>
<td>P7. Resource characteristics are:</td>
<td>homogeneous and perfectly mobile.</td>
<td>heterogeneous and imperfectly mobile.</td>
</tr>
<tr>
<td>P8. The role of management is:</td>
<td>to determine quantity and implement production function.</td>
<td>to recognize, understand, create, select, implement, and modify strategies.</td>
</tr>
<tr>
<td>P9. Competitive dynamics are:</td>
<td>equilibrium-seeking, with innovation exogenous.</td>
<td>disequilibrium-provoking, with innovation endogenous.</td>
</tr>
</tbody>
</table>

Note: The foundational propositions of R-A theory are to be interpreted as descriptively realistic of the general case. Specifically, P1, P2, P5 and P7 for R-A theory are not viewed as idealized states that anchor end-points of continua. For example, P1 posits that intra-industry demand in most industries (i.e., the general case) is substantially heterogeneous, not perfectly heterogeneous. In contrast, P1 for perfect competition assumes the idealized state of perfect homogeneity.


out that R-A theory’s incorporation of heterogeneous demand theory is a step in the right direction. (For a recent critique and review see Barney (2001) and Priem and Butler (2001a,b).)

Contrasted with perfect competition, heterogeneous demand theory views intraindustry demand as significantly heterogeneous with respect to consumers’ tastes and preferences. Therefore, viewing products as bundles of Lancasterian (1966) 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 resource-based view holds that the firm is a combiner of heterogeneous, imperfectly mobile factors, which 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. As diagrammed in Figures 1 and 2, R-A theory stresses the importance of (1) market segments, (2) heterogeneous firm resources, (3) a comparative advantage/disadvantage in resources, and (4) marketplace positions of competitive advantage/disadvantage.

In brief, market segments are defined as intraindustry 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., plants, 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.,
FIGURE 1
A SCHEMATIC OF RESOURCE-ADVANTAGE COMPETITION

Societal Resources

Resources
Comparative Advantage
Parity
Comparative Disadvantage

Market Position
Competitive Advantage
Parity
Competitive Disadvantage

Financial Performance
Superior
Parity
Inferior

Competitors-Suppliers

Consumers

Public Policy

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: Adapted from Hunt and Morgan (1997)

FIGURE 2
COMPETITIVE POSITION MATRIX*

Relative Resource-Produced Value (Effectiveness)

<table>
<thead>
<tr>
<th></th>
<th>Lower</th>
<th>Parity</th>
<th>Superior</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower</td>
<td>1</td>
<td>Competitive Advantage</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Lower</td>
<td>4</td>
<td>Competitive Advantage</td>
</tr>
<tr>
<td>Parity</td>
<td>5</td>
<td>Parity Position</td>
<td>6</td>
</tr>
<tr>
<td>Higher</td>
<td>7</td>
<td>Competitive Advantage</td>
<td></td>
</tr>
<tr>
<td></td>
<td>8</td>
<td>Competitive Advantage</td>
<td></td>
</tr>
<tr>
<td></td>
<td>9</td>
<td>Indeterminate Position</td>
<td></td>
</tr>
</tbody>
</table>

*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.

relationships with suppliers and customers). Each firm in the marketplace will have a unique set of resources (e.g., very knowledgeable employees, efficient production processes, etc.) that could constitute a competitive advantage in the marketplace. Just as international trade theory recognizes that nations have heterogeneous, immobile resources, and it focuses on the importance of a comparative advantage 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 (disadvantage) in resources, they will occupy marketplace positions of competitive advantage (disadvantage). Marketplace positions of competitive advantage (disadvantage) then result in superior (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 and suppliers, the behavior of consumers, and public policy decisions.

Consistent with its Schumpeterian heritage (Schumpeter 1950), R-A theory places great emphasis on innovation, both proactive and reactive. The former is innovation by firms that, though motivated by the expectation of superior financial performance, is not prompted by specific competitive pressures—it is genuinely entrepreneurial in the classic sense of an entrepreneur. In contrast, the latter is innovation that is directly prompted by learning process of firms' competing for the patronage of market segments. Both proactive and reactive innovation contribute to the dynamism of R-A competition.

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 advantage firm(s) by acquisition and/or innovation. That is, they attempt to acquire the same resource as the advantage 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 advanced competitor in terms of either relative efficiency, or relative value, or both.

Firms occupying positions of competitive advantage can continue to do so if (1) they continue to reinvest in the resources that produced the competitive advantage and (2) rivals' acquisition and innovation efforts fail. Rivals will fail (or take a long time to succeed) when an advantage firm's resources are either protected by such societal institutions as patents, or the advantage-producing resources are causally ambiguous, socially 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 has a comparative advantage in some market segment(s), competitors attempt to neutralize and/or leapfrog the advantaged firm through acquisition, imitation, substitution, or major innovation. Barney (2001) agrees with Priem and Butler (2001a) that a dynamic analysis using the resource-based view of the firm is important for the further development of strategy research. Specifically, Barney (2001) cites R-A theory as an example of an evolutionary approach that incorporates the necessary dynamics. Because R-A theory is inherently dynamic, disequilibrium, not equilibrium, is the norm in R-A competition. 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.

R-A THEORY'S EMBEDDEDNESS

Because a theory's implications derive from its assumptions, evaluating the embeddedness of R-A theory requires exploring its foundations (see Table 1). Our discussion begins with how R-A theory meets the first three criteria by focusing on its view of human motivation and the firm's objective and information. We then explicate how R-A theory meets the fourth and fifth criteria by exploring the dynamics of competition. Finally, to examine how R-A theory meets the last two criteria, the role of trust-based governance and network competition in R-A competition are discussed.

Human Motivation

The undersocialized view of neoclassical theory is that all human behavior is motivated by self-interest maximization. Thus, in their roles as consumers of products and owners or managers of firms, people maximize utility. Etzioni (1988)
shows that neoclassical theory conceptualizes utility and utility maximization as being: (1) a pleasure utility (ethical egoism in moral philosophy terms), or (2) a tautology, or (3) a mathematical abstraction. He notes that pleasure utility, or "P-utility," maximization dominates empirical works and public policy recommendations (as in the "public choice" school). As DiMaggio (1994, p. 46) puts it, "Homo economicus is relentlessly self-interested, selfish, and calculating: not the kind of person one would want as a friend or neighbor."

As an example of P-utility dominance, consider the atomized actors in NIE. They not only self-interest maximize, but do so with opportunistic "guile" (Williamson 1975). Although NIE acknowledges that not all economic agents engage in malfeasance, universal opportunism is assumed because it is "ubiquitous" (Williamson 1981, p. 1550) and opportunistic "types cannot be distinguished ex ante form sincere types" (Williamson 1975, p. 27) or, at the very least, "it is very costly to distinguish opportunistic from non-opportunistic types ex ante" (Williamson 1981, p. 1545; italics added). For NIE, therefore, trust-based governance (being naive, impossible, or too costly) is irrational.

In contrast, R-A theory posits that constrained self-interest seeking motivates human behavior. In ethical theory terms, deontological considerations constrain teleological considerations (Beauchamp and Bowie 1988). This premise parallels Etzioni’s (1988) view that people have two irreducible guiding values: pleasures (or P-utility) and morality. As Etzioni (1988) argues, because people do pursue pleasure and avoid pain, P-utility explains much behavior, and no theory of human motivation can be taken seriously if it ignores self-interest.

Addressing criterion one, we argue that R-A theory’s emphasis on the importance of societal institutions as independent variables that significantly influence the actions of economic actors contributes to its embeddedness. In short, R-A theory maintains that consumers, owners, and managers are constrained in their self-interest seeking by their moral codes, that is, by considerations shaped, but not determined, by societal institutions. (Reflexively, societal codes are shaped and continuously reshaped by individuals and their collectivities.) As a result, the influence of different moral codes on economic processes becomes a subject for theory development and empirical work—not an a priori assumption.

Addressing criterion two, R-A theory does not deny that individuals may act opportunistically. Rather, constrained self-interest seeking implies that opportunism is not assumed to prevail in all circumstances. Like Donaldson (1990), R-A theory maintains that the extent to which people behave opportunistically in various contexts is a research question to be explored and explained. Germane to trust-based governance, constrained self-interest seeking not only implies that trust may exist among people who share a moral code, but it also implies, as Raub and Weesie (1990) and Morgan and Hunt (1994) stress, that a firm’s reputation for trustworthiness can be economically advantageous.

Firm’s Objective and Firm’s Information

Because it maximizes the self-interests of the owner, neoclassical theory assumes that owner-managed firm’s profit maximize. Profit maximization (or wealth maximization, i.e., the maximization of the net present value of future profits) occurs under conditions of perfect and costless information about product markets, production techniques, and resource markets. Only when (nonowner) managers face decisions in which their personal interests conflict with the owners’ interests in profit maximization does neoclassical theory acknowledge that firms do not maximize profits. Then, NIE assumes that managers uniformly act opportunistically and the “principal-agent problem” arises.

In contrast, R-A theory proposes that the firm’s primary objective is superior financial performance, which it pursues under conditions of imperfect (and often costly to obtain) information about extant and potential market segments, competitors, suppliers, shareholders, and production technologies. Because it enables firms to pursue other objectives, such as contributing to or otherwise furthering social causes, superior financial performance is viewed as primary. Thus, again addressing criterion one, R-A theory acknowledges that the pursuit of “profits and efficient modes of performance drives much of organizational choice” (Zald 1987, p. 6).

Superior financial performance is indicated by such measures as profits, earnings per share, return on investment, and capital appreciation. Here, “superior” equates with both “more than” and “better than.” It implies that firms seek a level of financial performance exceeding that of some referent. For example, the referent 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. Affecting the process of competition, both the specific measure and specific referent will vary somewhat from time to time, firm to firm, industry to industry, and culture to culture. Therefore, addressing criterion three, R-A theory highlights the importance of societal institutions and culture as independent variables that significantly influence how financial performance is understood by economic actors. This understanding, in turn, influences the dynamics of competition (Figures 1 and 2).

Although firms seek superior financial performance, they do not maximize such performance because: (1) managers lack the capability and information to maximize (Simon 1979), (2) managers’ self interests may diverge from those of owners, that is, the “agency problem,” and (3) financial performance is constrained by managers’ views of morality. Perfect
competition, of course, recognizes none of these factors. Although NIE acknowledges factors one and two, factor three remains unacknowledged in the undersocialized, neoclassical tradition.

In contrast, addressing criterion two again, R-A theory recognizes that, at times, some managers resist cheating or opportunistically exploiting their customers, suppliers, and others because they believe that such self-interest maximizing behaviors would violate their duties or responsibilities, their sense of rightness or wrongness. For example, it is not the case that all firms double the price of bottled water when a natural disaster shuts down a community’s water supply. Nor is it the case that all firms who do resist doubling the price do so as a result of comparing the long-term discounted present value of doubling vs. the “goodwill value” of nondoubling. R-A theory maintains that some resist because they believe that doubling prices is deontologically wrong.

Again addressing criterion one (and ensuring that R-A theory is not oversocialized), firms are posited to pursue superior financial performance because superior rewards—both financial and nonfinancial—will then flow to owners, managers, and employees. Superior financial performance, however, does not equate with “abnormal profits” or “rents” (i.e., profits differing from the average firm in a purely competitive industry in long-run equilibrium) because R-A theory views industry long-run equilibrium as such a rare phenomenon that “normal” profits cannot be an empirical referent for comparison purposes. Furthermore, the actions of firms that collectively constitute competition do not force groups of rivals to “tend toward” equilibrium. Instead, the pursuit of superior performance implies that actions of competing firms are disequilibrating, not equilibrating. Because all firms cannot be simultaneously superior, the status quo of any transitory equilibrium position is inherently unstable, and long-run equilibrium does not occur. More precisely, for R-A theory the existence of long-run equilibrium, rather than being an ideal state, constitutes prima facie evidence of the absence of competition, that is, “what is left when competition is over” (Burt 1992, p. 5).

Competitive Dynamics

Criterion four proposes that a moderately socialized theory should explicate the process that results in efficient/inefficient outcomes. R-A theory does so by focusing on proactive and reactive innovation, both of which (as well as the constant changing of consumer tastes and preferences) contribute to the dynamism of R-A theory. Proactive innovation is innovation by firms that, though motivated by the expectation of superior financial performance, is not prompted by the specific competitive pressures detailed in Figures 1 and 2. As such, it is genuinely entrepreneurial in spirit, i.e., in the sense that an entrepreneur is a “gap-filler alert to new opportunities” (Martinelli 1994, p. 476). R-A theory addresses proactive innovation by providing a theoretical foundation for organizational competences (Prahalad and Hamel 1990; Sanchez, Heene, and Thomas 1996). For R-A theory, a competence is a higher-order resource that consists of a distinct package of basic resources. Specifically, competences are viewed as socially complex, interconnected, combinations of tangible (e.g., specific machinery) and intangible (e.g., specific organizational policies and procedures, the skills and knowledge of specific employees, and formal and informal social structures) basic resources that fit coherently together in a synergistic manner. Competences, then, play a major role in enabling firms to produce efficiently and/or effectively valued market offerings.

Central to proactive innovation in R-A theory are renewal competences, such as those described by Teece and Pisano (1994) as “dynamic capabilities,” by Dickson (1996) as “learning how to learn,” and by Hamel and Prahalad (1994) as “industry foresight.” Renewal competences prompt proactive innovation by enabling firms to (1) anticipate potential market segments (unmet, changing, and/or new needs, wants, and desires), (2) envision market offerings that might be attractive to such segments, and (3) foresee the need to acquire, develop, or create the required resources, including competences, to produce the envisioned market offerings.

Addressing criterion five, firms are not viewed by R-A theory as just responding passively to a changing environment. Rather, renewal competences and proactive innovations provide an important means by which firms influence or shape their environments and renew or reshape themselves. Contrasted with proactive innovation, reactive innovation is directly prompted by the learning process of firms’ competing for the patronage of a market segment(s). As the feedback loops in Figure 1 show, firms learn through competing 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 (cells 4, 7, and 8 in Figure 2), the goal of superior performance motivates them to attempt to neutralize and/or leapfrog the advantaged firm (or firms) by acquiring the resource and/or reactive innovation.

Reactive innovation includes imitating the resource, finding (creating) an equivalent resource, or finding (creating) a superior resource. “Imitating the resource” provides the mechanism for explaining the tendency, as observed by DiMaggio and Powell (1983), for organizational forms to become more homogeneous through time in an organizational field. In contrast, finding (creating) a superior resource implies that the innovating firm’s new resource enables it to surpass the previously advantaged competitor in terms of either relative efficiency, or relative value, or both. Again addressing criterion five, by leapfrogging competitors, firms
realize their objective of superior returns and shape their environments. Necessity is indeed the mother of innovation.

Firms occupying positions of competitive advantage (cells 2, 3, and 6 in Figure 2) can continue to do so if they have the required renewal capability, that is, they can engage in entrepreneurial, proactive innovation; if they continue to reinvest in the resources that produce the competitive advantage; and if rivals' acquisition and reactive innovation efforts fail. Rivals will fail (or take a long time to succeed) when an advantage-producing resource (1) is protected by such societal institutions as patents, (2) is causally ambiguous, socially complex, highly interconnected, or "tacit" (Polanyi 1957), or (3) has time compression diseconomies or mass efficiencies. Therefore, in Hodgson's (1993) terms, R-A theory is a phylogenetic (i.e., it focuses on the evolution of populations of firms), non-consummatory, evolutionary theory of competition, in which firms and resources are the inheritable, durable units of selection and competition among firms is the selection process that results in the survival of the locally fitter, not the universally fittest.

Addressing criterion four, the selection process is "locally fitter" because it results in the survival of resources (e.g., certain social structures) and firms that are, relative to particular competitors, more efficient and/or effective at a point in time in producing market offerings for particular market segments. Because firms can acquire resources, using firms and resources as units of selection means that R-A theory is Lamarckian, not Darwinian. Because evolutionary theories require a renewable source of variety and change, R-A theory locates the source in firms' pursuit of superior financial performance through a comparative advantage in resources that leads to marketplace positions of competitive advantage. Therefore, because not all firms can have superior performance at the same time, the source of change is renewable, making competition an ongoing, never-ending process.

Concluding this section, R-A theory satisfies the first five requisites of a moderately socialized theory of competition. First, self-interest and financial performance remain prominent, but the maximization of the self-interest of individuals and the financial performance of firms is rejected. Second, opportunism is not assumed universal, but is considered to be a behavior to be explored and explained. Third, institutions and culture influence economic action.

Fourth, the dynamics leading to (local) efficiency and effectiveness are explicated, but without the invocation of Darwinian "as if" metaphors. Fifth, renewal competences and proactive innovations imply that firms in R-A theory are not oversocialized. Exploring requisites six and seven are best accomplished through using a specific example of network competition: the automobile industry.

Trust-Based Governance and Network Competition

The upsurge in interest in trust-based governance and network competition is easy to understand: to an extent unparalleled in history, the economies of the world's nation-states have become interconnected and interdependent. Industry after industry is discovering that competition is no longer just regional or national, but truly global. Therefore, as Powell and Smith-Doerr (1994) observe, "As long as global competition requires success at coordinating complex production processes in a timely manner, organizing production through networks should prove advantageous." Likewise, others note the rise of the "network paradigm" (Thorelli 1986; Morgan and Hunt 1994; Piercy and Cravens 1995).

But many attempts at network competition fail. For example, Sherman (1992) estimates that one-third of all strategic alliances among manufacturers are outright failures. If becoming an effective competitor in the global economy requires being an effective cooperator in some network, why, then, are some networks more successful than others? For illustrative purposes, consider the strategic alliances that have formed in the automobile industry.

Since the early 1980s, competition in the automobile industry has shifted toward networks. That is, competition is being described as, for example, Ford's network (of component-parts suppliers, dealers, and services' providers) versus Toyota's network, versus General Motors' network, etc. Consequently, numerous car manufacturers have developed strategic alliances, with the Ford-Mazda, General Motors-Daewoo, Chrysler-Mitsubishi, and Fiat-Nissan alliances being prominent. Yet, because industry observers rate only the Ford-Mazda alliance to be a clear success among the four, accounting for its success has provoked much discussion. Because all four alliances are cross-cultural and all eight partners bring complementary resources to the table, neither of these factors can explain the disparity between the success of Ford-Mazda and the disappointing results of the other three partnerships. Rather, industry observers believe that partnership-management factors are key to understanding the Ford-Mazda alliance's success (Morgan and Hunt 1994).

First, the Ford-Mazda alliance is managed such that both parties must perceive that each and every cooperative project is mutually beneficial. Indeed, senior management ensures that there is an overall balance of benefits for both companies. Second, top management in both Ford and Mazda set the "tone" for the relationship by letting it be known in no uncertain terms that middle managers are expected to cooperate with their counterparts to achieve the benefits of each and every project. Third, the partners maintain open lines of communication and hold frequent, face-to-face meetings. For example, the senior management strategy group, comprised of top executives from both Ford and Mazda, meets for three days every eight months to discuss
present and future projects. One of these days is always reserved for informal “getting to know each other” activities, which adds the critical human dimension to the relationship. As Mazda’s president Wada puts it, “The most important point is for people to meet face-to-face and freely talk” (Business Week 1992, p. 106).

In short, the success of the Ford-Mazda alliance seems to result from a partnership-management approach that, through time, promotes trust-based governance by both signaling nonopportunistic intent and developing the kind of concrete social relationships hypothesized to constitute what Coleman (1988) calls “social capital.” Indeed, the partners work at developing the concrete social relationships that, through time, build trust and the kind of “relational cohesion” advanced by Lawler and Yoon (1996). These entities in R-A theory serve as substitutes for the “hostage taking” predicted by NIE (Williamson 1994) and, as such, become resources for the firms. Exactly which social relationships evolve is partially determined by the process of competition. Examples such as Ford-Mazda are important for establishing the role of trust-based governance because successful strategic alliances between competing manufacturers (especially, automobile manufacturers) represent an “acid test” for network competition. They are “acid” because these kinds of partnerships “lack the natural basis of trust that other networks possess” (Powell and Smith-Doerr 1994, p. 390).

In contrast, the General Motors-Daewoo alliance is marked by a lack of trust-based governance. General Motors initially entered into the alliance to get access to Korea’s low-wage workforce, which would allow them to produce less expensive cars and compete against the Japanese auto manufacturers. In turn, General Motors transferred to Daewoo its auto manufacturing expertise. However, partly due to an earlier joint venture failure between the two partners, a trust-based governance structure was never developed. General Motors managed the earlier failed alliance, based on a 50-50 partnership. As a result, Daewoo insisted that they manage the new alliance, also based on a 50-50 partnership. The result of these negotiations was a lack of trust by both partners. The failure of the second alliance resulted in each side blaming the other. General Motors cited Daewoo’s lack of proper quality control and adequate labor management skills as reasons for the failure. In turn, Daewoo accused General Motors of not promoting adequately the LeMans automobile. The failure can be traced to a lack of trust-based governance. The partnership was never able to properly use the resources (General Motors’ management and production skills and Daewoo’s human capital) that were available to it (Chan and Wong 1994).

Neoclassical, “mainstream” economics can provide no explanation for the success of the Ford-Mazda alliance and the failure of the General Motors-Daewoo alliance. In fact, neoclassical theory, from society’s perspective, would prescribe avoiding all such alliances because they would lead inevitably to collusion and price fixing. Hence, such alliances would be anticompetitive and would result in less efficiency in the marketplace. Similarly, NIE cannot provide an explanation. Under NIE, such alliances would be governed by “hostage taking” and well-written contracts. This does not seem to be the case in either of these examples. For example, Ford and Mazda seem to be developing a partnership based on social relations and trust-based governance, rather than the institutions invoked by NIE.

The import of network competition is that some forms of collaboration among competitors (and others) do not constitute anticompetitive conspiracies, but rather are arrangements that enhance competition: both Ford and Mazda are more competitive. But Granovetter (1985, p. 484) accurately notes the predisposition of neoclassical economics to view with suspicion all forms of interfirm collaboration, which he traces to Adam Smith’s famous line that “people of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices.”

Neoclassical theory’s aversion to the competition-enhancing aspects of the partnerships found in network competition stems not just from a suspicion of price collusion but also from the “hard core” (Lakatos 1978) foundations of neoclassical economic theory. To show how R-A theory accommodates partnerships as competition-enhancing, one must examine how both theories address the concept of resources.

Resources

Consider, again, the nature of the collaboration in the Ford-Mazda alliance. Since the inception of the alliance in 1979, Mazda-aided Ford products include the Escort, Festiva, Probe, and Explorer; whereas Ford-aided Mazdas include the MX-6, 323, Protegé, and Navaho. In these ventures, Ford shared its marketing, product-testing, electronic systems, and styling expertise with Mazda; whereas Mazda shared its manufacturing and product development knowhow with Ford. Ford’s expertise contributed to the value of Mazda’s products, as did Mazda’s knowhow to Ford’s. Both companies, therefore, are more competitive as a result of the alliance (and competition in general has been enhanced).

Now consider neoclassical, perfect competition theory’s view of resources. Not only are the “factors” of production customarily restricted to land, labor, and capital, but all resources are assumed to be perfectly homogeneous and mobile (i.e., each unit of labor and capital is identical with other units), and all can move without restrictions among firms, both within and across industries. Furthermore, each firm within an industry uses the identical “production function” or technology — no firm has access to a superior technology or organizational form. Therefore, because neoclassical theory customarily admits only capital, labor, and
land to qualify as firm resources (where capital is generally construed to be such tangible assets as machinery, inventory, and buildings), such intangibles as the Ford-Mazda partnership are outside the scope of the concept "resources" and are not considered as having value in the production process.

For R-A theory, resources are the tangible and intangible entities available to the firm that enable it to produce efficiently and/or effect a market offering that has value for some market segment(s). As Table 1 shows, one kind of resource is categorized as relational (e.g., relationships with competitors, suppliers, and customers). Note that a strategic alliance with a competitor to gain access to a new market would be a relational resource, but not a conspiracy with that same competitor to fix prices. Whereas the former enables the firm to produce value efficiently or effectively, the latter does not. Thus, not all entities that might provide a competitive advantage to a firm are resources, only those that contribute to enabling it to produce market offerings efficiently and/or effectively are considered resources.

Addressing criterion six, R-A theory provides a foundation for Uzzi’s (1996) finding that some embedded social relations are competition-enhancing. R-A theory does so because it views all entities as constituting resources only contingently. To use Uzzi’s (1996) research as an example, if financial performance in an economic arena depends crucially on “adaptive capacity,” which in turn is negatively affected by a particular set of concrete social relations, then such a network of social relations would not contribute, on net, to the firm’s ability to efficiently and/or effectively produce market offerings. Therefore, in this particular context, social relations would not constitute a resource. Indeed, in this context the network would be categorized as a “contra-resource” (Hunt and Morgan 1995).

When a firm has a resource—or, more often, a specific assortment of resources—that is rare among competitors, it has the potential for producing a comparative advantage for that firm (Barney 1991). A comparative advantage in resources, however, exists only when a firm’s resource assortment, enables it to produce a market offering that, relative to extant offerings by competitors, (a) is perceived by some market segment(s) to have superior value and/or (b) can be produced at lower cost (cells 2, 3, and 6 in Figure 2). As used here, “value” refers to the sum total of benefits that consumers in a market segment perceive they will receive from a market offering. Perceived value, then depends on (1) the tastes and preferences of consumers in the segment and (2) the resources that produce the offering.

Resources are viewed as 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 the marketplace (the neoclassical factor markets). Because of resource immobility, resource heterogeneity can persist through time despite attempts by firms to acquire the same resources of particularly successful competitors (Cool 1989; Collis 1991; Dierickx and Peteraf 1993).

Note that in R-A theory’s view, resources need not be owned by the firm, but just available to it. Note also that resources are not restricted to a firm’s tangible assets, but are anything that has an enabling capacity. Therefore, the knowhow and expertise that Ford and Mazda exchange constitute relational resources for both partners because they enhance, complement, or supplement their competences, thus enabling each of them to produce efficiently and/or effect a market offerings of value to some market segment(s). In conclusion, as to criterion six, R-A theory incorporates the view that social relations between economic actors can inhibit or enhance the performance of firms. Furthermore, as to criterion seven, it shows how the trust resulting from social relations can displace the institutions invoked by new institutional economics and can have desirable economic outcomes.

**CONCLUSION**

Why has R-A theory been so successful in explaining and predicting market phenomena? It is successful, in part, because it allows for the possibility that social relations and social structures are contingently competition-enhancing. That is, R-A theory is a moderately socialized, embedded theory of competition: (1) self-interest and financial performance are prominent in R-A theory, but the maximization of the self-interest of individuals and the financial performance of firms are rejected, (2) the opportunistic behavior of economic actors is not assumed universal, but it is considered to be a behavior that, when it occurs, is to be explored and explained, (3) institutions and culture have the capacity to either inhibit or enhance the likelihood of attaining positive economic outcomes, (4) the dynamics leading to (local) efficiency and effectiveness are explicated, rather than being assumed by the simple invocation of Darwinian “as if” metaphors, (5) firms in R-A theory are not oversocialized (i.e., they are not simply passive responders to their environments), (6) as our example of trust-based governance in network competition shows, the concrete social relations of economic actors in R-A theory have the capacity to either inhibit or enhance the likelihood of attaining desirable economic outcomes, and (7) R-A theory views the trust resulting from concrete personal relations as a substitute for the institutions invoked by NIE. Therefore, R-A theory provides a realistic description of the process of competition, which enables the theory to both explain and predict market phenomena successfully.

Because R-A theory is successful at describing, explaining, and predicting market phenomena, the theory provides both a positive foundation for marketing theory and a normative
foundation for marketing strategy (Hunt 2002). Therefore, R-A theory serves as more than a guide for researchers interested in further developing marketing theory, it can guide marketing management. Specifically, the theory can be used to provide guidance as to when particular marketing strategies will be successful. For example, Hunt (2002) outlines how R-A theory provides foundations for a variety of marketing strategies, including market segmentation and relationship marketing. In the case of market segmentation, R-A theory predicts that a segmentation strategy will be more successful when (1) intra-industry demand is more heterogeneous, (2) the target segment of demand is relatively large, (3) the market offering is well tailored to the segment’s tastes and preferences, (4) competitors’ market offerings are not well tailored to each segment, and (5) the firm’s resource costs, relative to competitors, of catering to each segment do not put the firm into a market place position of competitive disadvantage (i.e., cells 7 or 8 in Figure 2).

Regarding relationship marketing strategies, R-A theory maintains that relationships with important stakeholders constitute a resource that firms can use to achieve competitive advantages over their rivals. “Because relational resources can contribute to organizational capital and a firm’s marketplace position of competitive advantage, the strategic planning process should include plans for developing relationships that complement existing organizational competences” (Hunt 1997a, p. 441). Given the importance of relational resources, R-A theory implies that firms should periodically perform strategic resource audits (Hunt 1997a). An important component of strategic resource audits is the examination of the firm’s relationship portfolio (Gummesson 1999). Although firms often engage in many different relationships (e.g., with suppliers and alliance partners), “not all relationships are important to all companies all the time . . . some marketing is best handled as transaction marketing” (Gummesson 1995, p. 15). Therefore, care must be taken in the selection and development of relationships. Not only should firms avoid relationships with opportunists (Hunt and Morgan 1994), but also firms should only engage in relationships in which they can fulfill their obligations (Gronroos 2000). Although the explicit calculation of the worth of any relationship is difficult, firms can, at the very least, develop a qualitative assessment of the efficiency/effectiveness-enhancing characteristics of each relationship.

In conclusion, R-A theory’s successes can be traced to certain characteristics of the theory. First, R-A theory is explicated using a descriptively realistic approach. That is, R-A theory’s premises provide a realistic description of the process of competition, and, therefore, the theory incorporates market realities that other theories either ignore or discount. Second, R-A theory is a moderately socialized, embedded theory of competition. That is, it allows for the possibility that social relations and social structures can (and often do) affect competition (both negatively and positively). These characteristics allow R-A theory to serve as a positive theory of competition and provide a foundation for the normative theories that comprise marketing strategy. The process of theory development, like the process of competition, is an ongoing endeavor. Therefore, we invite researchers to aid in R-A theory’s development by subjecting it to critical evaluation and empirical testing.

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