

Resource-Based Theory

The resource-based theory (RBT) is an influential approach in strategic management. It has been widely applied as a managerial framework to determine vital resources for a firm to achieve a sustained competitive advantage. The theory provides an essential framework to explain and predict the fundamentals of a company's performance and competitive advantage.

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How to cite: Utami, H.& Alamanos, E.. (2023) *Resource-Based Theory: A review*. In S. Papagiannidis (Ed), [TheoryHub Book](#). Available at <https://open.ncl.ac.uk> / ISBN: 9781739604400

Theory Factsheet

Proposed By: Barney, 1991

Parent Theory: Theory of the Growth of the Firm

Related Theories: Resource – Advantage Theory, Agency Theory, Transaction Cost Theory, Behavioural theory, Network Theory, Relationship Marketing Theory, Stakeholder Theory, Knowledge-Based View

Discipline: Strategic management

Unit of Analysis: Organisation

Level: Meso-level

Type: Theory for Explaining and Predicting

Operationalised: Qualitatively / Quantitatively

Introduction

Resource-Based Theory (RBT) was first put forward by Penrose (2009), who proposed a model on the effective management of firms' resources, diversification strategy, and productive opportunities. Penrose's publication was the first to propose conceptualising a firm as a coordinated bundle of resources to address and tackle how it can achieve its goals and strategic behaviour (Penrose, 2009; Penrose, 2009). RBT began to take shape in the 1980s. The antecedent of RBT was the Theory of the Growth of the Firm. Later, during the 1990s, Jay Barney's work was critical to the emergence of RBT and became the dominant paradigm in strategic management and strategic planning.

RBT provides a framework to highlight and predict the fundamentals of organisation performance and competitive advantage. The focus of RBT on the firm's performance based on meso perspectives was a reaction to the earlier managerial interest in the industry

structure, a more macro perspective. RBT addresses an internally-driven approach by focusing on internal organisation resources, as opposed to externally driven approaches to understanding the accomplishment or failure of leveraging organisational activities (Kozlenkova, Samaha & Palmatier, 2014). It aims to elaborate on imperfectly imitable firm resources that could potentially become the source of sustained competitive advantage (Barney, 1991).

Some confusion persists concerning the label for the theory, whether to appropriately use the term resource-based theory (RBT) or resource-based view (RBV). Some research papers refer to the theory as RBT based on the evidence that the view has evolved into a theory, but some others refer to RBV. However, reflecting on the research community's perspective, several research assessments support the RBT's credentials (Kozlenkova, Samaha & Palmatier, 2014; Crook et al., 2008).

Theory

There are two underlying assumptions of the RBT related to the explanation of how firm-based resources generate sustained competitive advantage and why some organisations may continually outperform others by gaining higher competitiveness (Helfat & Peteraf, 2003). First, the bundles of resources owned by firms are different from each other (Helfat & Peteraf, 2003). One of the cornerstones of RBT is the heterogeneity of resources and capabilities in a population of firms, which differentiate the competitive advantage of each firm. The heterogeneity of resources assumes that a firm possesses unique resources in a specific situation can potentially be more skilled to perform particular activities and create competitive advantage. Second, the complexities of trading resources across firms may create persistence in differences in resources (the assumption of resource immobility).

Theory assumptions of RBT begin with the assumption that organisational characteristics are not merely modified. The organisation needs to correct its orientation if it is to succeed and achieve sustainable competitive advantage. The dominant paradigm in determining a company's profits potential, such as the view of Porter (1989), suggests that a firm's internal factors, such as resources and capabilities, determine a firm's profit. The seminal work about strategic resources by Barney (1991) became the fundamental contribution to RBT, guiding the transformation perspective of the resource-based view into a developed theory as RBT. However, the traditional RBT does not elaborate on why and how some firms gain a competitive advantage in circumstances of unpredictable and rapid change (Adner & Helfat, 2003). The development of a broader RBT perspective suggests that firms can achieve competitive advantage not only by utilising critical assets, but also by building new potential capabilities via learning, skill acquisition and the accumulation of tangible and intangible assets over time. The resource-based logic suggests that if valuable resources (i.e. resources that are costly and difficult to imitate) are possessed by few firms, those firms that are able to control these resources potentially to generate sustained competitive advantage (Barney, 1991). Hence, firms can achieve an advantage by continually recombining or reconfiguring diverse types of resources and by creating new applications to meet market demand (Adner & Helfat, 2003).

In RBT, resources refer to assets, business processes, capabilities, the firm's attributes, knowledge, information, etc. controlled by a company to comprehend and implement

strategies aiming to enhance efficiency and effectiveness (Barney, 1991). The source of firm resources can vary, coming from both within and outside the organisation. Internal resources are, for example, R&D capabilities, logistics, brand management, and low-cost processes (Kozlenkova, Samaha & Palmatier, 2014); while external resources are for instance: the role of suppliers (Lewis et al., 2010), customer demand, technology change (Li & Calantone, 1998).

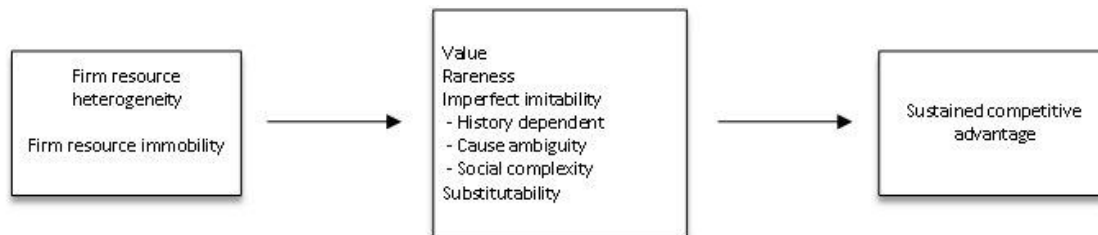
Company resources can be grouped into three categories, namely physical capital resources, human capital resources and organisational capital resources (Barney, 1991). Physical capital resources refer to company equipment, plant, its access to raw materials, geographical location and they include the physical technology utilised by a company. Human capital resources encompass experience, intelligence, training, judgment, relationships, and insights from employees, such as managers and workers in a company. Finally, organisational capital resources refer to a company's formal structure, the company's formal and informal system, which comprises planning, managing, and coordinating systems. Organisational resources also relate to informal relations amongst divisions within a company and the relationships between a company and its business environments.

Categorisation of company resources on RBT can also build upon two groups of tangible and intangible assets (Barney, 1991; Molloy et al., 2011). Tangible resources refer to all the assets, which include economic gains and visible business contributions, such as products and commodities. (Lyons & Brennan, 2019). Intangible resources comprise all the assets possessed by a company related to the access to capabilities and knowledge as well as organisational, strategic, and social benefits (Keränen & Jalkala, 2013). Tangible and intangible resources have different features in terms of deterioration of use, the ability for simultaneous utilisation and immateriality that are only obtained by intangible resources. Intangibles resource do not deteriorate with use, they can be used simultaneously by multiple managers, and are difficult to exchange (e.g. business process know-how, employee skills) (Molloy et al., 2011). On the other hand, tangible resource can deteriorate with use, may or may not have the ability to be used simultaneously by different managers, and can be exchanged (e.g. material goods, commodities) (Molloy et al., 2011).

The second central construct of RBT, namely capabilities, represents a subset of the company's non-transferable company-specific resources that aim to improve the productivity of obtaining other resources (Makadok, 2001). Capabilities can manifest themselves in various forms and generally consist of tangible or intangible processes and information that help a company to create efficiency and improve its productivity (Kozlenkova, Samaha & Palmatier, 2014). However, a new concept of dynamic capabilities was introduced by Teece et al. (1997), which can "continuously create, extend, upgrade, protect, and keep relevant the enterprise's unique asset base" in a changing environment (Acedo, Barroso & Galan, 2006). Dynamic capabilities have enriched RBT research more recently by analysing the changes in the capabilities of addressing the rapid shifts in the organisation's environments (internal and external). The conceptualisation of capabilities has been extended with the introduction of dynamic capabilities, which refers to resources that can be managed not only when it comes to modifying other resources, but also for value creation (Kozlenkova, Samaha & Palmatier, 2014; Peteraf & Barney, 2003). Such resources represent, for example, alliance capabilities, big data deployment, and product

development practices. Alliance capabilities appear to be a crucial part in the firm's strategies by co-operating and combining resources in the most effective and efficient manner (Nickerson & Zenger, 2004). Product development practices could also be an example of dynamic capabilities by creating capabilities to specialise and practise routines to increase company performance (Adner & Helfat, 2003).

Figure 1: The framework of Resource-based Theory to generate a sustainable competitive advantage



Based on Fig.1, the framework of RBT includes four conditions to assess whether a resource has the potential to become and generate a sustainable competitive advantage. The four conditions are (1) value, (2) being rare, (3) immobility and (4) sustainability (Barney, 1991). The four terms, known as the VRIS framework, are the characteristics that a firm must have as the strategic planning reference and hold the prospect of sustained competitive advantage. First, the resource must be valuable, which refers to a condition that exploits the opportunities and/or threats in a firm's environment. For example, a company may have a secret formula to produce a specific product that only this company has. Second, the resource must be rare, in the sense that it is rare or unique among the firm's current and potential competition. For instance, a company may have the capability of a worldwide distribution network. Third, the resource must be imperfectly imitable: the valuable and scarce resources owned by a firm cannot be easily obtained by other firms who do not possess these resources. An example of an imperfectly imitable condition is a globally recognised product or company brand, which has no equivalent capability or resource that could be used by others. The fourth and final condition is that the resources cannot be strategically duplicated or substituted, that they are neither rare nor valuable or imperfectly imitable by other firms. An example of the non-substitutable condition is the portfolio of popular trademarks that are legally protected, making it a non-sustainable resource. The four conditions of RBT suggest that poor organisational policies, processes, and procedures may weaken a resource's potential competitive advantage (Barney, 2007). Hence, the organisation can act as the adjustment factor to prevent or support a firm from entirely realising the advantages of the firm's embodied resources in its evaluability, rareness, and costliness or complexity to imitate (Barney, 2007).

In development, the RBT framework presented in the VRIS model (valuable – rareness – inimitable – substitutability) was later replaced by the VRIO model (valuable – rareness – inimitability – organisation) (Barney, 1991; Barney, 2007). The VRIO model proposes the new criteria of the organisational embeddedness of a resource. This criterion proposes that the

importance of an organisation is organised in such a way as to exploit the resource. It replaces the resource criterion concerning substitutability is the VRIS model. The needs of the organised organisation criterion suggest that the organisation should focus on the proper management (e.g., organisation policies, organised procedures) to manage the valuable, rare, and imperfectly imitable resources and obtain their full competitive potential (Barney, 2007; Amit & Schoemaker, 1993). The new criterion of 'organisation' also means that a firm's processes and structure play a critical role in determining the other three resource criteria of value, rarity, and imperfect imitability that aim to enhance organisational performance (Kozlenkova, Samaha & Palmatier, 2014). Thus, the organisation operation functions as the adjustment factor in deciding a firm's ability to enable or prevent realising the benefits embodied in its valuable, rare, and costly to imitate resources (Barney, 2007). The VRIO model's introduction has acknowledged that the organisation needs to leverage resources effectively instead of being only possessed by the organisation (Kozlenkova, Samaha & Palmatier, 2014).

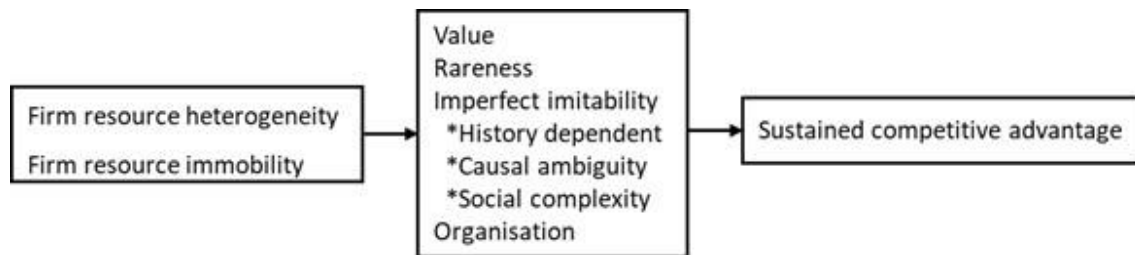
Figure 2: The RBT framework using the VRIO model for sustained competitive advantage

Is a resource or capability . . .					
Valuable?	Rare?	Costly to imitate?	Exploited by organisation?	Competitive implications	Economic performance
No	—	—	No	Competitive disadvantage	Below normal
Yes	No	—		Competitive parity	Normal
Yes	Yes	No		Temporary competitive advantage	Above normal
Yes	Yes	Yes		Sustained competitive advantage	Above normal

The RBT framework presented in Figure 2 provides the relationship between the organisation resource heterogeneity and immobility and the four critical parameters for resource-based analysis (VRIO) to achieve sustained competitive advantage (Barney, 2007). This revised version of the RBT framework bringing in the critical criteria of VRIO can help understand the return potential associated with exploring any organisation's capabilities and resources.

Figure 3 describes the implications of how these four critical resource criteria may affect a firm's competitive advantage and economic performance. Based on this figure, we can analyse how an organisation's operation adjusts to these factors in the VRIO model (Barney, 2007). This framework facilitates understanding whether a specific organisation resource is a source for sustained competitive advantage. It helps answer the kinds of questions that need to be addressed, whether a particular resource is valuable? Rare? Imperfectly imitable? And, is the organisation organised to exploit this resource?

Figure 3: The VRIO framework



Applications

Beyond being used in strategic management, RBT has been adopted and applied in other business management areas, both in a qualitative and quantitative manner. To date, the application of RBT has been extended to various business studies such as marketing (Barney, 2014;Kozlenkova, Samaha & Palmatier, 2014), operational management (Hitt, Xu & Carnes, 2016;Lewis et al., 2010) economics (McWilliams & Siegel, 2011;Ahmed, Kristal & Pagell, 2014), supply chain management (Zimmermann & Foerstl, 2014;Ahmed, Kristal & Pagell, 2014), information systems (Seddon, 2014;Setia & Patel, 2013), and entrepreneurship (Molloy et al., 2011). Numerous studies have set out to examine the link between RBT and its implementation for various business purposes, for example, firm performance - big data analytics, firm dynamic capabilities, purchase and supply management practices, marketing capabilities, innovation - R&D, and strategic IS.

The application of RBT in various disciplines apart from its popularity amongst strategic management literature that emphasises its resource-base has supplied the footing for the RBT framework or an extension. The theory has been used to study business resource and capability strategy by adjusting recent business environment developments such as technology and innovation. Using big data analytics to see firm performance (Akter et al., 2016) or to use it for innovation in marketing (Wright et al., 2019) are examples of the influence of RBT in business and management studies. The study by Akter et al. (2016) showed that big data analytics could be aligned with the business strategy to enhance firm performance by using the RBT model, such as based on the entanglement perspective of socio-culturalism. The firm capabilities in technology, management, and talent capability may serve as the analytics capability business strategy alignment to investigate the firm performance by using big data analytics capability under the RBT model. In marketing subjects, the exploration of firm capability through the role of big data technology for innovation as the components of RBT are employed to explore market leadership by evaluating the resources needed by the organisation for big data application (Wright et al., 2019). From a marketing perspective, firm innovation capabilities require four sources of resources concerning equipment availability, expertise and skills, and innovation capability to exploit big data investment. The firm capability in innovation involves an appropriate system or IT expertise to operate big data adoption. The potential of innovation through the firm capability in big data technology may be positioned as an investment for sustained competitive advantage. The adoption of the RBT model has been used to support the study

on marketing innovation through diverse market-based resources, such as technology and innovation, to sensing the changes in the business environment and responding to them (Kozlenkova, Samaha & Palmatier, 2014).

Moreover, RBT applications related to innovation have also been studied concerning the performance of corporate R&D alliances, such as investigating the relationships between corporate motivation and the performance of R&D alliances (Lai & Chang, 2010). The R&D activity has been considered to be one of the primary ways to engage in innovation, and companies need to explore and obtain resources to facilitate innovation within the organisation. From the perspective of RBT, R&D activities can energise not only a firm's capacity development for innovation but are also essential to assist a firm in using its limited capabilities and resources and dealing with the turbulent and competitive environment (Barney, 1991).

Furthermore, the RBT model is also used to explain the firm's dynamic capabilities based on the concept of the capability lifecycle (Helfat & Peteraf, 2003). Dynamic capabilities occur in RBT as the firm's ability to integrate, develop, and reconfigure internal and external competences to respond to rapidly changing environments (Teece, Pisano & Shuen, 1997). The concept of the firm capability lifecycle emphasises understanding a firm's resources as product developments paths. The extension of a firm's capabilities into dynamic capabilities articulates the general direction and pattern in the evolution of organisational capabilities over time. The dynamic RBT may identify the firm's capability lifecycle based on the three initial processes of founding, development, and maturity – followed by six additional steps of capability transformation as follows: retirement, retrenchment, renewal, replication, redeployment, and recombination. The extension of understanding dynamic capabilities as the source of competitiveness in the RBT framework may complete the joint evolution of the critical elements of the dynamic RBT. The theory development in RBT also reveals how the theory has improved from the classic RBT to the extended RBT (ERBT). The application of this, such as a study on operation and supply chain management suggested by (Lewis et al., 2010), is based on two different approaches of classic RBT and ERBT to develop and combine long-term advantage. The classic RBT focuses on the internal organisation resources that are classified as scarce, imperfectly mobile, imperfectly imitable, and imperfectly substitutable, whereas the ERBT concentrates on firm resources and capabilities as the interplay between internal organisation and the external environment. For example, the creation of competitive advantage may have more to do with the relationships with suppliers compared to the existence of inimitable manufacturing production resources possessed by the organisation. To accelerate the cycle development process possible through inter-firm resources associated with ERBT, and gain long-run sustainable advantage requiring synchronisation and integration of both bounded (internal) and relational (external) resources.

The development of RBT also provides an alternative explanation for the sources of a company's competitive advantage that complements strategy as the positioning perspective by exploring the key scarce resources, such as the benefits of ICT use in the organisation. Study of organisational performance concerning IT subjects (e.g. IT-supported business processes, enterprise systems, knowledge-management systems, mobile devices) has led many information systems (IS) researchers to use RBT as the underpinning theory (Seddon, 2014). An example of RBT in strategic IS proposed by Seddon (2014) and presents the critical

concepts of RBT from the IS literature about the implications of strategic IS research of the RBT of the firm. Investigating strategic IS based on the RBT perspective may contribute to the knowledge of the RBT conditions (VRIS – valuable, rare, imperfectly imitable, non-substitutable) related to the ICT-related resources in a different context of applications (Seddon, 2014). Verification of the RBT conditions of resources may be applied as the theoretical foundation hypothesising associations between ICT-related resources and competitive advantage. In this specific area of IS, the approach of RBT may reveal the importance of ICT resources to support organisational value since IT management of a firm is very much concerned with the firm's ability to develop new capabilities.

Limitations

RBT has attracted criticisms on four key fronts. First, the traditional RBT is limited when it comes to explaining why and how some organisations gain a competitive advantage in an unpredictable and rapidly changing business environment (Kleinschmidt, de Brentani & Salomo, 2007). Second, the value creation idea that has been proposed based on this theory regarding valuable resources is tautological and static (Kozlenkova, Samaha & Palmatier, 2014; Priem & Butler, 2001), which means the theory is self-verifying and is not empirically testable (Barney, 2001), which may possibly relate to some poor quality RBT research (Kozlenkova, Samaha & Palmatier, 2014). The theory has also been criticised for being static and for failing to tackle the effect of organisational activities on resource effectiveness over time (Kozlenkova, Samaha & Palmatier, 2014). However, this criticism has been addressed by later theory refinements, such as by decoupling the direct relationship between VRI resources (valuable-rare-imperfectly imitable) and outcomes by defining organisational processes applied to exploit resources (Peteraf & Barney, 2003; Barney, 2007). Third, as the concept primarily refers to the work by Barney (1991), the support for the resource condition of being rare may be redundant, as any resource that meets the requirement of value, non-substitutability and inimitability is rare (Priem & Butler, 2001). Finally, RBT tends to ignore exogenous resources and assumes that only endogenous factors are essential to driving competitive advantage, although exogenous factors may otherwise offer potential as advantageous capabilities (Lewis et al., 2010). Despite the limitation of RBT, the rapid development of RBT and the innovation to the theory through adjustment, clarification and modification continue to improve its applicability and scope (Kozlenkova, Samaha & Palmatier, 2014).

Concepts

Firm Resource Heterogeneity (Independent): The heterogenous assets, capabilities, organisational processes, company attributes, knowledge, information, etc. controlled by a firm that facilitate the conception and implementation of strategies that potentially increase efficiency and effectiveness. (Barney, 1991)

Firm Resource Immobility (Independent): The ease by which a firm can acquire strategically relevant resources (e.g. capabilities, organisational processes, company attributes,

knowledge, information, etc.) controlled by another firm to enter the industry and implement a similar strategy. (Barney, 1991)

Value (Independent/Dependent): The valuable resources possessed by a firm that enable the conception or implementation of a strategy that improves efficiency and effectiveness to generate sustainable competitive advantage. (Barney, 1991)

Rareness (Independent/Dependent): A firm's valuable resources that are undeniably unique among a set of competing and potentially competing ones for firms that can generate a sustainable competitive advantage. (Barney, 1991)

Imperfect Imitability (Independent/Dependent): The condition of a firm possessing a bundle of relevant valuable and rare resources that other firms cannot acquire. (Barney, 1991)

Substitutability (Independent/Dependent): A condition whereby a firm's resource must neither be strategically valuable, rare, nor imitable to be a source of sustainable competitive advantage. (Barney, 1991)

Sustained Competitive Advantage (Dependent): A competitive advantage possessed by a firm that remains present despite the endeavours of other firms to copy it. (Barney, 1991)

Organisational Capability (Independent): The ability of an organisation to perform a planned set of tasks by employing resources to achieve a specific outcome. (Helfat & Peteraf, 2003)

Organisational Dynamic Capability (Independent): The ability of an organisation to develop, integrate or reconfigure operational capabilities. (Helfat & Peteraf, 2003)

Capability Lifecycle (Independent): A general pattern and set of possible paths that characterise the evolution of the capabilities of an organisation. There are three main stages of organisation capability lifecycle, namely, (a) the founding stage; (b) the development stage; and (c) the maturity stage. (Helfat & Peteraf, 2003)

Npd Organisational Resources (Independent): Experiences and established approaches underlying international new product development that include global innovation culture, the attitude of top management involvement, resource commitment and NPD process formality. (Kleinschmidt, de Brentani & Salomo, 2007)

Global Innovation Culture (Independent): An organisational resource related to the ability to recognise and leverage specific resources, skills and ideas within the firm that incorporate globalisation but that are often geographically distributed. (Kleinschmidt, de Brentani & Salomo, 2007)

Management Involvement In Global Npd (Independent): The value of senior managers playing a visible role to incorporate essential knowledge and capabilities such as know-how, familiarity and understanding of a tacit nature based on a lesson from prior experience in firm-specific projects, leadership experiences and team interactions. (Kleinschmidt, de Brentani & Salomo, 2007)

Resource Commitment (Independent): The commitment of sufficient resources is an essential attitude by senior management that can also be conceptualised as intangible resources that are of value but imitable. It developed over time based on the organisation experiences and emphasis on international markets. (Kleinschmidt, de Brentani & Salomo, 2007)

Npd Process Formality (Independent): The formal, stage-like system to provide a template for routine activities and reviews to be employed throughout the stages of the NPD process. (Kleinschmidt, de Brentani & Salomo, 2007)

Global Npd Process Capabilities/routines (Independent/Dependent): Organisation characteristics related to key global NPD process capabilities relevant to identifying and exploiting new product opportunities for the international market, consisting of global knowledge integration, new product development homework activities and launch preparation. (Kleinschmidt, de Brentani & Salomo, 2007)

Global Knowledge Integration (Independent/Dependent): The capability by which firms access and integrate functionally and globally dispersed information about markets throughout the NPD activities that respond to customers worldview . (Kleinschmidt, de Brentani & Salomo, 2007)

Homework Activities (Independent/Dependent): The routine for conducting an early assessment of new product ideas, creating project definitions and evaluation of product potential in the global markets . (Kleinschmidt, de Brentani & Salomo, 2007)

Launceh Preparation (Independent/Dependent): A capability that encompasses detailed planning for the commercialisation of new products on an international scale. (Kleinschmidt, de Brentani & Salomo, 2007)

Global Npd Programme Performance (Dependent): A firm's potential to outperform its rivals as measured by superior financial performance and to establish an advanced strategic position. (Kleinschmidt, de Brentani & Salomo, 2007)

Financial Performance (Dependent): The new product development program accomplishment that encompasses profitability, sales and cost performance. (Kleinschmidt, de Brentani & Salomo, 2007)

Windows of Opportunities (Dependent): The extent to which global new product development programs open new product, market and technological arenas. (Kleinschmidt, de Brentani & Salomo, 2007)

Markeing Capbility Interdependency (Independent): The application of a firm's capabilities and resources for the development and implementation of its marketing strategy and information management. (Vorhies & Morgan, 2005)

Pricing (Independent): The ability to obtain the optimal revenue from the customers. (Vorhies & Morgan, 2005)

Product Development (Independent): The processes by which firms manage and create products and service offerings. (Vorhies & Morgan, 2005)

Channel Management (Independent): The firm's ability to develop and manage channels of distribution that can efficiently and effectively deliver value to end-consumers. (Vorhies & Morgan, 2005)

Marketing Communication (Independent): The firm's ability to maintain customer value perceptions. (Vorhies & Morgan, 2005)

Selling (Independent): The processes by which the firm develops customer orders. (Vorhies & Morgan, 2005)

Market Information Management (Independent): The processes by which firms understand about their markets and utilise market knowledge. (Vorhies & Morgan, 2005)

Marketing Planning (Independent): The firm's ability to formulate marketing strategies that optimise the match between the firm's resources and its marketplace. (Vorhies & Morgan, 2005)

Marketing Implementation (Independent): The processes by which a proposed marketing strategy is converted into realised resource deployments. (Vorhies & Morgan, 2005)

Firm Performance (Dependent): The business capabilities achieved by a firm signifying customer satisfaction, profitability and market effectiveness. (Vorhies & Morgan, 2005)

Customer Satisfaction (Dependent): The assessment from the firm's employees towards business performance related to their customer satisfaction over the past year and expectation for the following year. (Vorhies & Morgan, 2005)

Market Effectiveness (Dependent): The degree to which the firm's market-based goals have been accomplished. (Vorhies & Morgan, 2005)

Profitability (Dependent): The assessment from the firm's employees towards business performance related to the current profitability score and anticipated financial performance for the following year. (Vorhies & Morgan, 2005)

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How to cite: Utami, H.& Alamanos, E.. (2023) *Resource-Based Theory: A review*. In S. Papagiannidis (Ed), [TheoryHub Book](https://open.ncl.ac.uk). Available at <https://open.ncl.ac.uk> / ISBN: 9781739604400

Last updated: 2023-09-23 21:58:55 - Exported: 2024-08-01 08:53:00

ISBN: 978-1-7396044-0-0

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