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Amending the Resource-based view of Strategic Management from an Entrepreneurial Perspective

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ABSTRACT

The purpose of this paper is to amend the resource-based view of strategic management from an entrepreneurial point of view. We firstly attempt to make a brief survey of the conceptual framework of the RBV by contrasting it with the competitive forces approach (CFA) presented by Porter (1980). Secondly, we clarify the objectives of corporate strategy through a critical assessment of the RBV from both a static and a dynamic point of view. Finally, we suggest a new perspective of the RBV by amending it from an entrepreneurial viewpoint, and then take some examples to illustrate the new perspective for further empirical studies.

INTRODUCTION

The purpose of this paper is to amend the resource-based view (RBV) of strategic management from an entrepreneurial point of view. Many scholars have attempted to investigate into the mechanism of sustainable competitive advantage of a firm through the RBV with original concepts such as 'core competence' (e.g., Hamel & Praharad, 1994), 'dynamic capability' (e.g., Teece, Pisano & Shuen, 1997) 'VRIO framework' (Barney, 2002), 'capability lifecycle' (Helfat & Peteraf, 2003), and 'routine and skills' (e.g., Nelson & Winter, 1982). However little work in RBV has been made to grasp the role of entrepreneurship as the crucial source of competitive advantage, despite the abilities of the entrepreneur are undoubtedly the principal human resources possessed by firms (see Alvarez & Barney, 2000 for an exception). This paper attempts to incorporate the theory of entrepreneurship into the RBV of strategic management, while critically dealing with the RBV from an entrepreneurial viewpoint.

The paper is divided into tree parts. First, a brief survey is given of the conceptual framework of the RBV. It is helpful for us to grasp the characteristics of its framework by contrasting with the competitive forces approach (CFA) presented by Porter (1980), because it is said that the CFA explores the source of sustainable competitive advantage in the external environment of the firm (i.e., attractiveness of industry where they are located), while the RBV pays attention to the internal resources of the firm (i.e., the heterogeneous resources that a firm possesses). Second, we clarify the objectives of corporate strategy through a critical assessment of the RBV from both a static and a dynamic point of view. Barney's fundamental concept of the RBV is examined. Third, we suggest a new perspective of the RBV by amending it from an entrepreneurial viewpoint, and then take some examples to illustrate the new perspective for further empirical studies.

1. THE CONCEPTUAL FRAMEWORK OF THE RBV

1.1 Strategy and External Environment of a Firm

Traditional research on strategic management suggests that firms need to seek a strategic fit between the external environment; i.e., opportunities and threats, and internal resources; i.e., strengths and weaknesses (e.g., Andrews, 1967; Itami, 1987). However, considerable emphasis has usually been given to a firm's competitive environment and its competitive position (Das & Teng, 2000). Considering the source of sustainable competitive advantage of a firm, it is widely accepted that the dominant viewpoint in the strategic management theory throughout the 1980s was the CFA presented by Porter (1980). His conceptual framework was mainly based on the structure-conduct-performance paradigm of the theory of industrial organization (Bain, 1959; Mason, 1949). It is no exaggeration to say that Porter (1980) specifically brings a concept of 'competition' for the first time in strategic

management theory. The most innovative part of his work in this field is that he constructs a consistent framework for thought so as to examine concrete questions like "how will a firm able to get a competitive advantage over its competitors?"

In the CFA, the industrial structure strongly influences the rules of competition, as well as the strategies potentially available to the firms belonging to that industry. Therefore the strategic issue for a firm seems to concern their competitive positioning in the industry. They seek a favorable position in order to gain a monopoly rent (Teece, 1984), while avoiding involvement in competition or moderating competitive pressures by influencing industry structure and their competitors' behavior. To help the firm find such a positioning in the industry, Porter (1980) advanced a 'five-force model'. This consists of five industry-level forces: i.e., entry barriers, threat of substitution, bargaining power of supplier, bargaining power of buyer and rivalry among industry incumbents, which determine the inherent profit potential of an industry or sub-segment of it.

However, a series of empirical surveys have failed to support the link between industrial structure and the performance of a firm. Some studies show the variance in firm performance between industries is substantially less than that within industries (e.g., Jacobson, 1988; Hansen & Wernerfelt, 1989; Rumelt, 1991). Others also identify systematic and significant performance differences among firms which belong to the same strategic group within an industry (Cool & Schendel, 1988). Research has suggested that the internal resources of a firm rather than the external environment around the firm are possibly the primary source of performance differences among firms. This result is bringing a growing number of researchers to the RBV of strategic management to explain the differences by focusing their attention on resource heterogeneity in an industry and the source of sustainable competitive advantage of the firms.

1.2 Strategy and Internal Resources of a Firm

Since the mid 1980s, the RBV has emerged as one of the substantial theories of strategic management (Barney, 1986a; Rumelt, 1984; Wernerfelt, 1984), even though it is said that the RBV does not presently appear to meet the empirical content criterion required of a theoretical system (Bacharach, 1989; Hunt, 1991; McKelvey, 1997; Priem & Butler, 2001a,b). The increased attention to firms' resources by researchers has seemed to be beneficial in helping to clarify the potential contributions of resources to competitive advantage, as well as to introduce strategy scholars to a number of useful descriptive theories from industrial organization economics (e.g., Alchian & Demsetz, 1972, on 'teamwork' production, or DeVany & Saving, 1983, on price as a signal of quality), and furthermore to alleviate a previous analytical overemphasis on the opportunities and threats that arise from the product side (Priem & Butler, 2001a).

The RBV suggests that the resources possessed by a firm are the primary determinants of its performance, and these may contribute to a sustainable competitive advantage of the firm (e.g., Hoffer & Schendel, 1978; Wenerfelt, 1984). According to Barney (1991), the concept

of resources includes all assets, capabilities, organizational processes, firm attributes, information, knowledge, etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness (Barney, 1991; Daft, 1983).

In the early stage of the RBV, the main concern was to identify the characteristics of resources that are not subject to imitation by competitors. If the resources possessed by a firm can easily be replicated by competitors, even though the resources are the source of competitive advantage of the firm, then the advantage will not last long. Dierickx & Cool (1989a) describe how the sustainability of a firm's asset position hinges on how easily its resources can be substituted or imitated, and imitability is linked to the characteristics of the asset accumulation process: i.e., time compression diseconomies, asset mass efficiencies, inter-connectedness, asset erosion and casual ambiguity. In the same way, several other characteristics have been explored such as unique historical conditions, causal ambiguity (Reed & DeFillippi, 1990), social complexity, isolating mechanism and so on (Barney, 1991; Lippman & Rumelt, 1982; Rumelt, 1984).

1.3 Resources and Capability

Let us develop the concept of resources a little further. For instance, Grant (1991) notes the distinction between resources and capability as follows:

> Resources are inputs into the production process … [they] include items of capital equipment, skills of individual employees, patents, brand names, finance, and so on. But, on their own, few resources are productive. Productive activity requires the cooperation and coordination of teams of resources. A capability is the capacity for a team of resources to perform some task or activity. (Grant, 1991: 118-119)

In the same manner, Amit & Schoemaker (1993) define resources as stocks of available factors that are owned or controlled by the firm, which are converted into final products or services. Capabilities, in contrast, refer to a firm's capacity to deploy resources, usually in combination, using organizational processes, to produce a desired effect. Hence, the presence of capability enables resources to begin to be utilized, and the potential for the creation of output arises. While resources are the source of a firm's capabilities, capabilities are the main source of its competitive advantage (Grant, 1991). The important point of this approach compared to the early stage of RBV is that, for the sake of gaining a sustainable competitive advantage, capability is regarded as more important than resources *per se*, and

this implies that the firm-specific way of cooperation and coordination of resources causes the heterogeneity among firms in an industry[1].

This thought can be theoretically traced back to Penrose's (1959) work. She regards a firm as more than an administrative unit, it is also a collection of productive resources which including the both physical and human resources. According to Penrose, it is never 'resources' *per se* that are the 'inputs' in the production process, but only the 'services' that the resource can render, that is, "The services yielded by resources are a function of the way in which they are used—exactly the same resources when used for different purposes or in different ways and in combination with different types of or amounts of other resources provide a different service or set of services. The important distinction between resources and services is not their relative durability; rather it lies in the fact that resources consists of a bundle of potential services and can, for the most part, be define independently of their use, while services cannot be so defined, the very word 'service' implying a function, an activity. As we shall see, it is largely in this distinction that we find the source of the uniqueness of each individual firm" (1959: 25).

The result of this is that the concept of 'capability' is the capacity of a firm to convert resources they possess into the 'service'. The relationship can be formulated as

$$S = f(C, R)$$

for some general function f (.) so that C and R are the parameters of S, where C is capacity of capability, R is resources, and S is service.

The difference, or possibly the uniqueness, of a firm largely comes from these capabilities. Much recent research in this area has been based on empirical studies of the firm-specific ways of cooperation and coordination that bring sustainable competitive advantages for the firm (e.g., Fujimoto, 1999; Iansiti, 1998).

2. CRITICAL ASSESSMENT OF THE RBV

2.1 Examine the RBV from a Static Viewpoint

Having made a brief survey of the conceptual framework of the RBV by contrasting with the CFA, we now attempt to clarify the objective of corporate strategy through a critical assessment of the RBV. Barney's (1986a, 1991, 2001) conceptual framework of the RBV has been used, because as Priem & Butler (2001a) remark, many RBV proponents either paraphrase his statements or simply cite his articles (i.e., Barney, 1991), without an

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[1] To deepen the concept of capability, Grant (1991) invokes the concept of 'organizational routine' from evolutionary theory (e.g., Nelson, 1991). He views capability as a routine or a number of interacting routines, and organization as a huge network of routines.

augmented definition (e.g., Bates & Flynn, 1995; Brush & Artz, 1999; Lits, 1996; Powel, 1992a, b; Rindova & Fombrun, 1999; Yeoh & Roth, 1999), and operate under his framework in their conceptual and empirical work[2]. His (1991: 105-106) conceptual framework may be paraphrased as follows (1991: 105-106):

> Firstly we make two assumptions in analyzing sources of sustained competitive advantage: (I) firms within an industry (or group) may be heterogeneous with respect to the strategic resource they control, and (II) these resources may not be perfectly mobile across firms, and thus heterogeneity can be long lasting. Under these assumptions, we assert that the resource must have four attributes: (a) it must be valuable, in the sense that it exploit opportunities and/or neutralizes threats in a firm's environment, (b) it must be rare among a firm's current and potential competition, (c) it must be imperfectly imitable, and (d) there cannot be strategically equivalent substitutes for this resource that are valuable but neither rare or imperfectly imitable. Conditions (a) and (b) produce competitive advantage, and (c) and (d) relate to sustainability.

Two points should be noted here regarding this argument. Firstly, Barney's concept of 'valuable'[3] is an ambiguous benchmark with which to measure the competitive advantage of a firm. Whether the resource is valuable or not ought to be measured by its profitability, and thus it takes the form of an economic asset regardless of how tangible or intangible it is. The value of any resource should be measured by the discounted value of the expected future income (or rent) stream that can be attributed to it.

In the RBV the valuable endowments of a firm are taken as given. The planning and investment necessary to build up such resources are exogenous in this framework. This means there is the fear that the RBV will overstate the profitability of firms exploiting these resources, because they ignore the cost of acquisition and accumulation. Therefore it is impossible for the RBV to explain why firms invest in such a valuable resource rather than in other type of resources. In addition, if the firms want to realize their competitive advantage or maximize their profit (i.e., super-normal profit in the Marshallian sense) from

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[2] Priem and Butler investigate whether the RBV arguments regarding competitive advantage meet the generally accepted criteria for classifying a set of statements as a theory, See Priem & Butler (2001a, b) and also Barney's counter-argument (Barney, 2001).

[3] He defines valuable resources in variety of ways, for example: a firm's resources and capabilities are valuable if, and only if, they reduce a firm's net cost or increase its revenues compared to what would have been the case if this firm did not possess those resources (2002: 162); a firm's resources and capabilities are valuable if, and only if, they reduce a firm's net cost or increase its revenues compare itself to with other successful firms (2002: 188: footnote 23). These definitions take account of the cost of acquiring these resources, however it is still incompetent to fulfill the conditions for acquiring and realizing a competitive advantage.

the resources they possess, they have to take into account of the demand-side characteristics that influence on the final price of their output. The values of resources are determined by demand-side characteristics, and those are also exogenous to the RBV model (Priem & Butler, 2001a, b). We never have *a priori* information on the competitive advantage among firms that will result in super-normal profit, on the contrary, we know *a posteriori* the existence of the competitive advantage by virtue of the existence of super-normal profit. After all, the emphasis is on how to sustain such a valuable resource over the long term without adequate appreciation of its economic value. Therefore it is open to criticism that the RBV contains a theory of sustainability but not a theory of competitive advantage (Priem & Butler, 2001b).

Secondly, the concept of a 'rare' resource does not necessarily ensure the competitive advantage of the firm, even if that resource generates a large 'rent' due to its relative scarcity. In *The Wealth of Nations*, Smith had already recognized this point. He stated:

> [I]f the one species of labour requires an uncommon degree of dexterity and ingenuity, the esteem which men have for such talents will naturally give a value to their produce, superior to what would be due to the time employed about it. Such talents can seldom be acquired but in consequence of long application, and the superior value of their produce may frequently be no more than a reasonable compensation for the time and labour which must be spent in acquire them. (Smith, 2000 [1776]: 53)

Rents are the prices of services yielded by resources (Lewin & Phelan, 2002). In this phase rent is nothing more than the rental price of the service of the resource whether it is rare or not. After remunerating all the factors of production, no profit has been left to the firm (Demsetz, 1973; Barney, 1986a; Rumelt, 1987). If there is a firm gaining profit from the resource, it is simply that the firm squeezes some part of the rent from the owner of the resources.

Many RBV researchers identify the concept of 'rent' (e.g., Mahoney & Pandian, 1992; Petaraf, 1993; Rumelt, 1987), that is expressed in various forms, i.e., Ricardian rent, Marshallian rent, Paretian rent, and quasi-rent, as those, which accrue from the relative differentiation of resources a firm control[4]. They consider the concept of 'competition' as the states that firms compete in factors of production markets over the relative advantage of the resources they acquire or accumulate, rather than compete in final-product markets over the price of their products and services.

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[4] We have to bear in mind the fact that rent will be paid even though all of land is homogeneous or even if the land is not fertile. Rent is not paid due to the relative difference of the land's fertility but by the fact that land is merely scarce (Lewin & Phelan, 2002). The difference in fertility reflects in the diference in rental rates, however, the rental rate is nothing to do with the profitability of a firm. The owner of any resources just asks for the rents (i.e., wage, rent, and interest) according to its rate.

However, from the static point of view, all of the relative advantages of these resources ought to be compensated for their owner. And the source of competitive advantage of the firm remains only by their monopoly rent. In this case alone, a firm would be able to gain super-normal profit at the cost of social welfare. It follows from what has been said, that the RBV contains the conditions of sustainability, but it does not fulfill the conditions for acquiring and realizing a competitive advantage. Only firms that already possess a competitive advantage are qualified to adopt the RBV in order to secure its monopolistic positioning.

2.2 Examine the RBV from a Dynamic Viewpoint

Given that the RBV is nothing more than an indication of the condition for competitive firms to sustain their advantage, how can we investigate the academic value in the RBV in terms of explaining the source of the competitive advantage of a firm? By examining Barney's (1986a, 2001) research, we see that he might recognize the existence of super-normal profit and the source of competitive advantage besides valuable and rare resources. The 'strategic factor market imperfection' is the key concept for finding the academic value in the RBV.

The strategic factor markets are developed when a firm requires the acquisition of resources in order to implement its strategy (Barney, 1986a). These markets are where firms buy and sell the resources necessary to implement their strategies (Barney, 1986a; Hirshleifer, 1980). Hence the economic performance of the firms depends not only on the returns from their strategies but also on the cost of buying the resources from these markets to implement those strategies. And the costs of those resources are determined by the characteristics of the factor markets. Relevant to this point is Barney's following remark:

> The existence of strategic factor markets has important implications for return to product market strategies implemented by firms, for the size of returns to product market strategies will depend on the cost of the resources necessary to implement them. And the cost of these resources will depend on the competitive characteristics of the relevant strategic factor markets. If strategic factor markets are perfectly competitive …[then] firms will only be able to obtain normal returns from acquiring strategic resources and implementing strategies. Firms can only obtain greater than normal returns …[then] when the cost of resources to implement those strategies is significantly less than their economic value, i.e., when firms create or exploit competitive imperfections in strategic factor markets. (Barney, 1986a: 1232).

This remark shows that valuable and rare resources are not the source of competitive advantage or above normal return if the cost of acquiring or developing these resources equals the value they create when used to conceive of and implement a strategy. However, there is an implied possibility that the competitive advantage may come from the

imperfections in strategic factor markets. Different firms in these markets will have different expectations about the future value of a strategy that creates this imperfection (*Ibid*., 1986a), and the owners of the firm also have different expectations about the future return of their resources (*Ibid*., 2001). Therefore, different expectations toward the resources produce the possibility of a competitive advantage for a firm. This kind of competitive advantage, named 'economic rents' by Barney, reflect the creative and entrepreneurial ability of firms to discover how to generate value with their resources in ways that other firms and outside owners cannot anticipate (*Ibid*., 1986a, 2001). Firms that intend to obtain a competitive advantage must be consistently better informed concerning the future value of these resources than other firms.

Examining the Barney's concept of 'strategic factor market imperfection', we are able to interpret that the characteristics of 'competition' are not in the world of static states (equilibrium), but in the world of dynamic processes of change (disequilibrium). As mentioned above, no rents emerge in the world of static states. Lewin & Phelan clearly describe this point:

> If the price of any resource reflects the discounted value of its expected future earnings, and if everyone shares the same correct expectations, then that price includes all correctly anticipated value components. There are no strategic decisions to be made. *Ex ante* values will turn out to be equal to *ex post* values. There will be no 'surplus' or 'abnormal' rents, because all resource owners, whether they sell or rent their resource, will correctly impute any value added by their resource to any production process of which they (the resources) are a part. Resource users will thus treat these rents as a cost. There is no discrepancy between total cost and total revenue and both equal total rents earned. (Lewin & Phelan, 2002: 234)

Unless there is a difference between the *ex post* value of a venture and the *ex ante* cost of acquiring the necessary resources, the entrepreneurial rents are zero (Rumelt, 1987; Peteraf, 1993). In a dynamic sense, such a situation cannot exist because a price of any resource reflects the discounted value of its expected future earnings, so everyone shares the same correct expectations towards it and the price includes all correctly anticipated value components. The possibility of profit comes from *ex ante* risk and uncertainty, the probability of profit comes from *ex post* realization of certain value. In this sense, the size of super-normal profit, thus the competitive advantage of a firm, depends on the difference between the *ex ante* cost of resources and the *ex post* value of them. This suggests that to acquire a competitive advantage is no more and no less than to obtain the entrepreneurial rents. We may say that the academic values can be found in the RBV when we view it in a dynamic context.

3. AMENDING THE RBV

3.1 Entrepreneur as a Resource

In case firms obtain a competitive advantage, resource heterogeneity does not necessarily require by itself. In the dynamic world, the heterogeneous perceptions are more important than the heterogeneous resources *per se* (Lewin, 2005; Lewin & Phelan, 2002). As a matter of course, such perception originates in the asymmetric information among firms. This drives us, logically, to the situation that the function of 'entrepreneurship' and also the ability to perceive market imperfection of information have to be incorporated into the RBV. How to best evade the market imperfection or how to make good use of that imperfection is very strategic decision made by a firm to gain a super-normal profit. And of course, the one who will be in charge of this strategic task is an entrepreneur[5].

As an aside, even if it is logical to represent the function of entrepreneurship in the RBV, how can we recognize the relationship between the RBV and entrepreneurship? For recognizing this relationship, Casson (2004) helpfully points out that resource-based theory highlights the importance of human resources, as reflected in competencies and capabilities, to the performance of the firm (Teece & Pisano, 1994). The theory of entrepreneurship simply asserts that the abilities of the entrepreneur are the principal human resource possessed by the firm. Other resources, such as the capabilities of scientists and managers, derive from those of the entrepreneur, since it is the entrepreneur who has selected the people with these capabilities to work for the firm[6] (Casson, 2004).

Besides his remarks on the relationship between entrepreneurship and the RBV, Casson made an important statement on the conceptual distinction of resources. As we formulated the relationship above, we made a distinction between resources and capability in accordance with the function of resources in general. In addition, here the concept of the 'abilities of the entrepreneur' is pulled out from the category of resources by its own function. It is supposed that the abilities of the entrepreneur is of particular importance when a firm needs to make decisions such as selecting people with the right capabilities to

[5] We treat the entrepreneur as an entity, which takes a function of entrepreneurship, whichever it is a particular person (entrepreneur) or not.

[6] Casson's definition of entrepreneur is as follows: "An entrepreneur is someone who specializes in taking judgmental decisions about the coordination of scarce resources" (1982: 23). Central to this definition is a notion of a judgmental decision. This, Casson defines as a decision "where different individuals, sharing the same objectives and acting under similar circumstances, would make different decisions" (1982: 24). They would make different decision because they have "different access to information, or different interpretation of it". It follows from this definition that an entrepreneur will be a person whose judgment inevitably differs from the judgment of others. The reward, then, for an entrepreneur derives from backing his or her judgment and being proved right by subsequent events (Ricketts, 2002: 71).

work for the firm, as these things require the entrepreneur's vision and strategy. "The essence of coordination is decision-making" (Casson, 1997: 78).

The firm is therefore not only the unit to cooperate and coordinate resources, but also the one to specialize decision-making. Not all decisions are strategic and some decisions are matter of a routine, but routine procedures have to be designed, and this is often a strategic decision. When new threats or opportunities arise, procedures often need to be changed. The design of new procedures is an important aspect of the entrepreneurial response to a changing situation (Casson, 2003, 2004). Thus under some circumstances, the direction of resources and capabilities are not chosen without the abilities of an entrepreneur. Those are empowered by the entrepreneur's abilities. The abilities of the entrepreneur here is a super-ordinate concept to capability. Hence, the presence of the ability enables capability to be performed along the entrepreneur's vision or strategy, capability enables resources to begin to be utilized, and the potential for the creation of service arises. The main source of the competitive advantage is the abilities of the entrepreneur. We can formulate the relationship as

$$S = f(E, C, R)$$

for some general function f (.) so that E, C, and R are the parameters of S, where E is the quality of entrepreneur's decision making, C is capacity of capability, R is resources, and S is service.

While both invoking and amending the RBV from the entrepreneurial point of view, if we take the goal of corporate strategy to be the creation of entrepreneurial rents, then the objective of strategy is defined as follow:

Strategy is the function of a firm to obtain an entrepreneurial rent by exploiting the factor markets disequilibrium (i.e., to maximize the difference between the *ex ante* values of inputs and the *ex post* values of outputs in a dynamic world) through firm-specific capabilities and resources which are directed by the abilities of an entrepreneur (originating from the heterogeneous perception of the entrepreneur).

3.2 Exploiting the Disequilibrium

In the preceding section, we made a critical assessment of the RBV. It becomes clear that the RBV has its own traits and potential as an academic thought when we grasp it in a dynamic context. Now we have to explore how to exploit the factor markets disequilibrium in order to create the entrepreneurial rents. Here we will suggest two ways for the exploitation. One is 'entrepreneurial arbitration' and the other is 'entrepreneurial innovation'. Both of them share a fundamental proposition: the existence of unexploited opportunities that no one exploits, while each of them have crucial distinction in terms of their perception toward the market process in which the entrepreneur perform their role.

The former is the way to create the rents as a return to the entrepreneur's alertness in the process of a new equilibrium (Choi, 1995; Gick, 2002; Hebert & Link, 1982). An entrepreneur gains a profit by means of adjusting the value differentiation of any factors in the existing market. For instance, if different price prevail in the same market, there is scope for profitable arbitrage between the two segments of the market. Or if the prices of inputs are out of line with the prices of outputs then there is scope for expanding the production of some products at the expense of others (Casson, 2003). It is nothing to say that we can interpret the entrepreneurial arbitration as the concept belongs to the category of 'accuracy' and 'speed'. Adjusting the differentiation of resource value more accurately and more quickly than other individuals is one of the main ways to exploit the disequilibrium.

On the contrary, 'entrepreneurial innovation' is the way to create the rents as a return to an entrepreneur's discovery of new combinations as disturbing a process of equilibrium (Choi, 1995; Gick, 2002; Hebert & Link, 1982). For instance, the entrepreneur conducts innovation which is manifested in the introduction of new products or products with new qualities, new production processes, new markets, the use of new raw materials and other intermediate products, and the formation of new organization (Schumpeter, 1934). Creating the differentiation of resource value proactively with other individuals is one of the main ways to exploit the disequilibrium. It goes without saying that the former is consistent with the thought of the Austrian school or Kirznerian (e.g., Kirzner, 1985) and the latter is consistent with that of Schumpeterian (Schumpeter, 1934). Casson shows the distinction clearly as follows:

> The Austrian market process is usually construed, in neoclassical terms, as asserting that markets are always out of equilibrium, and that entrepreneurial interventions tend to move markets towards equilibrium, without them ever reaching that state. This interpretation presumes, however, that the markets already exist: this is reflected in the reference to entrepreneurial activities as speculation or arbitrage—both of these activities which take place in established markets. Radical forms of market-making[7] entrepreneurship, however, involve designing products or specifying services which did not previously exist, and for which there was therefore no market. In absence of the entrepreneur, therefore, it is not the case that markets would be merely out of equilibrium, as the Austrian view suggests, but that markets would not exist at all. (Casson, 2004)

[7] Casson (2004) remarks that 'market-making' or 'creating new markets' is not the only form of entrepreneurial activity, but it is an important and often neglected one. We treat here the market-making activity as one of the disruptive or radical innovations, while most of innovation has incremental characteristics.

As one of the most important entrepreneurial activities, Casson (2004) emphasizes the identification of changes in patterns of demand and creation of new markets by bringing together suppliers of inputs and consumers of outputs. We can paraphrase the market-making activity as an innovation to realize a future value system through the new combinations of resources in the present time and space, while the arbitration is merely exploiting the unexploited opportunities in the present existing market. It is not necessary for the purpose of this paper to enter into a detailed discussion on this distinction. It is enough to mention here only that there are two ways for exploiting the factor markets disequilibrium, i.e., adjusting the differentiation of resource value, and creating the differentiation of resource value.

3.3 Illustration of New Perspective

It follows from what has been said that firms (hierarchy) and other forms of business organization (arms length transactions, M&A, strategic alliances, etc.) serve as experimental incubators for the entrepreneurial visions of various and varied resource combinations that reflect the particular perceptions of the entrepreneurs. Finally, we take some examples here to illustrate the new perspective for further empirical studies: the adjustment of the differentiation of resource value through the M&A, and the creation of the differentiation of resource value through the strategic alliances.

Adjusting the differentiation. The factor markets are often in disequilibrium. This provides a firm with opportunities to acquire resources that are more valuable than other firms believe them to be. By exploiting the disequilibrium, the firm will have the chance to create a super-normal profit. Perhaps the M&A is one of the typical options that provide a firm with opportunities to exploiting the disequilibrium, i.e., to acquire resources that are currently undervalued in the market, and to identify the correct value of them through the M&A.

If a firm overestimates a return potential from the resource that is acquired through the M&A, the firm will probably sustain an economic loss in the long run. Thus, as a result, the firm gains the competitive disadvantage vis-à-vis the competitor of the firm gain the competitive advantage. In the same context, if a firm underestimates a return potential from the resource that is acquired through the M&A, the competitor of the firm gain the competitive advantage, if they estimate the value of the resources more higher than the firm and acquire them at the price less than the actual vale of it.

Although such a valuation has to be made implicitly whenever the M&A is conducted, the valuation of resources held by other firms is inherently difficult to make. Different firms

will have different perceptions, which reflecting the disequilibrium in the factor markets[8]. This is a reason why mistake are often made in the M&A, and a reason why successful firms can earn substantial profits through the deals.

Perceptions toward risk and uncertainty are essentially subjective and relative. These different perceptions provided a firm with opportunities to acquire someone's resources, which were more valuable than other firms believed them to be[9]. Thus the M&A is a way (or experimental incubator) for a firm to identify the real value of those resources, and their quality of perceptions toward resources as well.

Creating the differentiation. On the other hand, there is no existing market in the phase of the market-making, thus a firm will not able to identify any value of resources unless they create the new market where these resources are utilized. Because few firms possess enough resources in order to establish the new market, strategic alliances are one of the useful options for the firm to overcome the resource restrictions.

In this phase, there was a great deal of risk and uncertainty, because no one confirms whether the market would be expanding or not. Some firms may perceive a low risk where other firms perceive considerable risk to engage in the market-making process. Hence, each of them have to evaluate how much they should engage in the alliances, how much they should invest in resources they bring into the alliance, and the value of resources that allies bring into the alliances. Different firms will arrive at different perceptions, reflecting the markets disequilibrium for any resources.

In a valuation process, strategic alliances are normally joined if all allies are relatively optimistic about the market prospects, and the value of the resources that they bring into the alliance. It is, however, inherently difficult to perceive the future of the market, and the value of the resources that allies bring into. This is the reason why most of strategic alliances are in vain. Some firms strongly take part in the alliance, while others often decide to withdraw from the alliance, or just put their name on the list of the ally. On the other hand, if all allies share the optimistic perceptions, they can probably earn substantial profits through the alliance.

Perceptions toward risk and uncertainty are essentially subjective and relative. These different perceptions provided a firm with opportunities to realize the value of any resources, those are unvalued (value are unknown) in the present time and space, in the future market. The strategic alliance is a way (or experimental incubator) for firms to identify the real

[8] The managerial foresight or the 'accurate expectations of return potential of the strategy' that Barney (1986) noted is similar to one of our concepts, i.e., 'entrepreneurial arbitration' (adjusting the value differentiation in the factor market).

[9] If resources cannot be acquired in the market because of its nature (e.g., knowledge embedded in routine work, skills of labor, a variety of know-how pertaining to technology and production), these resources can be more efficiently acquired through the strategic alliances, e.g., an inter-organizational learning.

value of unvalued resources, and their quality of perceptions toward the market prospects and these resources.

SUMMARY AND CONCLUSIONS

To begin with, a brief survey was given on the conceptual framework of the RBV by contrast with the CFA. The first point we examined was Barney's fundamental concept of the RBV. From a static point of view, we showed that his concept of 'valuable' and 'rare' resources does not fulfill the conditions for acquiring and realizing a competitive advantage. Because firstly, either the investment necessary to build up resources and the demand-side characteristics that ought to evaluate the value of these resources are exogenous to his framework. Secondly, after remunerating all the factors of production, no competitive advantage has been left to a firm whether the firm possesses 'rare' resources or not. All of the 'rare' resources ought to be of value to their owner. On the contrary, from a dynamic point of view, we could find an implied possibility in his framework that the competitive advantage may come from 'imperfections in the factors markets'. Different firms and different owners in these markets will have different expectations about the future value of those resources that create this imperfection. Therefore, different perceptions toward resources produce the possibility of a competitive advantage. This indicates that the abilities of the entrepreneur lie in discovering how to generate the real economic value with their resources in ways that others cannot anticipate.

The second point considered was the relationship between resources, capabilities, and the abilities of the entrepreneur, by invoking Casson's work. We suggested that the main source of competitive advantage does not fall into the heterogeneity of resources and capabilities *per se*, but the heterogeneous perceptions of the entrepreneur. The abilities of the entrepreneur enable capabilities to be performed along the entrepreneur's vision or strategy, capabilities enable resources to begin to be utilized, and the potential for the creation of output arises. By treating the relationship as such, we concluded that the objective of strategy is as follows: strategy is the function of a firm to obtain an entrepreneurial rent by exploiting the factor markets disequilibrium (i.e., to maximize the difference between *ex ante* values of inputs and *ex post* values of outputs in a dynamic world) through firm-specific capabilities and resources which are directed by the abilities of an entrepreneur (originating from the heterogeneous perception of the entrepreneur).

After mentioning two ways for creating entrepreneurial rents, i.e., entrepreneurial arbitration and entrepreneurial innovation, we took some examples to illustrate the new perspective we have developed for further empirical studies.

Although many scholars have contributed to identify the mechanism of sustainable competitive advantage through the RBV of strategic management, Priem and Butler (2001b) hope that the entrepreneurial strategic decision process and the RBV will each receive a deserved level of scholars' attention, fewer attempts have been made to grasp the role of

entrepreneurship as the source of competitive advantage. In order to deepen the understanding of the source of sustainable competitive advantage of a firm, we have to pay attention on not only to the *ex post* mechanisms in which a firm manage to assure the realization of certain value, but also to the *ex ante* mechanisms in which an entrepreneur attempt to exploit the differences in their perception toward the risk and uncertainty. This work has taken only the first step in that direction.

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