

Resource-Based Theory and Market-Driven Management

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Abstract

Market-Driven Management poses the question of the relationship between markets and competitive advantage. Market-driven firms reveal a superior ability to understand, attract and maintain, a supply of products/services that offer more value for the customer than competitors.

The Resource-Based Theory originates from Penrose's idea (1959) of the firm as a coordinated 'bundle' of resources that the business has at its disposal or has access to (inside out), which are valuable, rare and inimitable.

In global markets, MDM strives towards continuous innovation processes that can enable the company to escape the potential pressure of the competition, by identifying new customer needs to satisfy (outside in). The market-driven company is not only oriented to the market, but also tends to orient the market.

Keywords: Market-Driven Management; Resource-Based Theory; Outside-In Capabilities; Inside-Out Capabilities; Global Competition; Global Markets

1. Market-Driven Management: Basic Theoretical Elements

The question of the links between marketing studies and strategy studies is certainly not new, but we believe there is still space for greater analysis and definition. In this perspective, we intend to propose some topics for meditation and subsequent analysis of the points of contact between one view, Resource-based Theory, which is attracting much attention today in the field of both strategic and organisational studies, and the contribution of Market-Driven Management which, although, originating in the field of marketing studies, clearly affects the issue of strategies whose goal is the achievement of competitive advantage.

The connections between the various fields of analysis of business management are now so deeply rooted, that even the positioning of scientific contributions in one disciplinary area rather than another, is complicated and often not very useful to develop knowledge. The vision that once limited the development of marketing studies to a specific operational and functional area now seems completely

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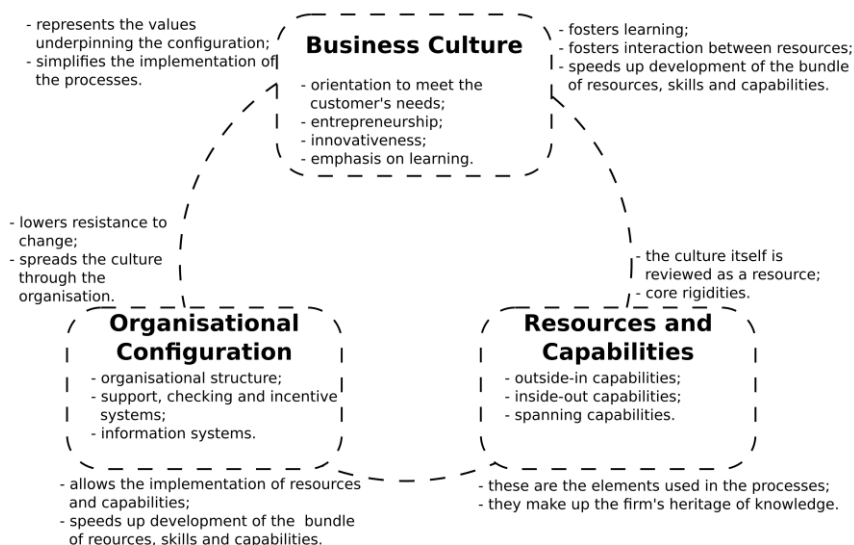
outdated. Even the distinction between strategic and operational marketing seems inadequate, compared to the complexity of the external contexts in which businesses operate and to more advanced managerial and organisational models.

Market-Driven Management (MDM), which emerged in the late 1980s with the publication of important papers (Shapiro, 1988; Webster 1988, 1992; Deshpandé and Webster, 1989; Kohli and Jaworsky, 1990), poses the question, central to strategy studies, of the relationship between markets and behaviour whose goal is competitive advantage. The market-driven business is one that ‘reveals a superior ability to understand, attract and maintain customers with a high economic profile’ (Day, 1999). In other words, it is able to organise and exploit resources and capabilities (Hult and Ketchen, 2001) so as to create, and maintain in time, a supply of products/services that offer more value for the customer (Lambin, 2007) than its competitors (Jaworski and Kohli, 1993; Day, 1994, 1999).

It is a view whose roots are deep in marketing studies (Slater and Narver, 1995), and from the original interpretation of the marketing concept (Drucker, 1954, 1973) it borrows the company’s function of relating with the market to meet the consumer’s needs, and to develop and sustain innovation, as a process that leads to the satisfaction of human needs, whether explicit, latent or unconscious. In line with Drucker’s vision (1973), marketing action runs through the entire organisation, and is not confined solely within a specific organisational function (the marketing function) even if this is pre-eminent (Felton, 1959; Barksdale and Darden 1971; McNamara, 1972)¹. From this perspective, the concept of market orientation (MO)² gains ground, outstripping the more restrictive marketing orientation³.

One interpretative model that defines the components of market orientation is based on Day’s work (1994), although it aims to include additional analytical elements that underline the strong interaction, and often the overlapping of the boundaries, between the components.

Figure 1: An interpretation of the concept of Market Orientation



Source: Author’s elaboration based on Day (1994)

The distinctive characters of market-driven businesses, as illustrated in Figure 1, are:

- the business culture;
- distinctive resources and skills;
- the organisational configuration and the climate.

The business culture seen as the system of values and convictions that characterise an organisation and facilitate its operations (Deshpandé and Webster, 1989) is very market-oriented. The behaviour of all the components of a business is focused on meeting the customer's needs (Shapiro, 1988; Narver and Slater, 1990; Deshpandé, Farley and Webster, 1993, 2000). Analysing the market forces that influence these needs (Vorhies, Harker, 2000) and the opportunities that emerge, the firm must try to grasp them before the competition (Brondoni, 2007), using its resources, capabilities and skills, (Day, 1994, 1999; Hooley *et al.*, 2005).

The capacity to search for, or create, new opportunities that allow it to exploit its resources fully, prompts the firm to consider the consumer's latent needs, to explore and analyse them in perspective (Slater and Narver, 1999). This form of innovation-driven enterprise is a strong component of the organisational culture and is fundamental for the creation of a sustainable competitive advantage (Van de Ven and Polley, 1992). The striving for innovation is expressed in the corporate culture through its innovativeness (Hurley and Hult, 1998), which depends on other structural elements of the organisational culture, such as power sharing, a collaborative management style and emphasis on learning (Baker and Sinkula, 1999).

In the MDM approach, the emphasis is on the creation of an integrated, flexible organisational culture (Deshpandé, Farley and Webster, 1993), which can facilitate the flow of information between the various parties, even through informal channels (Shapiro, 1988).

The second level of MO analysis regards capabilities, which Day sees as closely inter-related combinations of abilities, technologies and accumulated learning. The business culture lays the foundations for their creation; in fact, according to some authors (Hooley, *et al.*, 2005; Milfelner, Gabrijan and Snoj, 2008) a market-oriented business culture can *per se* be considered a resource and a distinctive skill.

Day (1994) classifies the distinctive capabilities of the management of 'market driven' organisations, distinguishing between:

- Outside-In capabilities;
- Inside-Out capabilities;
- Spanning capabilities.

Outside-In capabilities are concentrated primarily outside the company. Market-sensing capabilities have the goal of linking the processes so as to enable the business to anticipate events within the market and the reactions of the competition; other capabilities are relational in character and regard links with the customers and channel bonding.

Inside-Out capabilities, which include transformation processes, financial management, logistics, technological development and human resources management, make it possible to respond to external opportunities. These

capabilities express what a firm is capable of (Grant, 1991), but only acquire value when they are seen in relation to an external opportunity and/or threat (Barney, 1991).

And finally, Spanning Capabilities, which must allow the integration between inside-out and outside-in capabilities, and regard the development of strategies and of new products and services, pricing, order management and deliveries.

MDM leads businesses to excel primarily in the first group of capabilities, so as to understand emerging opportunities, to anticipate the moves of the competition, to base decisions on facts, to attract and retain high profile customers, to offer greater value to customers, and to boost customer loyalty (Day, 1999).

These are marketing resources and capabilities, which can be divided into Market-Based Resources (Customer Linking capabilities; Reputational Assets; Market innovation capabilities; Human resource assets) and Marketing Support Resources (Marketing Culture of the Organisation and Managerial capabilities to manage, lead, coordinate activities) (Hooley, et al., 2005).

The system of capabilities and the business culture must be implemented within a defined context, the so-called 'configuration', which does not only coincide with the organisational structure, but also includes what is defined as the 'climate' ('the ways an organisation makes its culture, the structures and processes that facilitate the achievement of the desired behaviours' – Slater and Narver, 1995), which combines the managerial and operational processes and mechanisms typical of organisations that focus on continuous learning.

Market-driven businesses have collaborative leadership styles, decentralised organisational forms with strong interaction and collaboration between the components, information flows that can sustain the effective spread of knowledge, and strategic planning mechanisms based on task-oriented teams.

The process of acquiring information from outside, as we said above, must not be limited to the study of current customers, but must focus on learning that can derive from interaction with other parties operating on the market. What is more, the process of contact with the outside world must pass through different parties inside the company with no specific organisational units filtering the passage of information (Shapiro, 1988; Day, 1994).

The firm must balance the processes of knowledge exploitation and knowledge exploration (March, 1991) to achieve a sustainable competitive advantage (Barney, 1991; Hult and Ketchen, 2001; Weerawardena and O'Cass, 2004). It uses the process of knowledge exploitation to refine its understanding of the current market in order to sustain its competitive position, while it uses the process of knowledge exploration to innovate its knowledge base to sustain its competitive advantage, in very dynamic, turbulent contexts (Slater and Narver, 1995). The capacity for innovative learning underpins both the company's range of knowledge, and the link between this knowledge and the target of the new cognitive process, according to the principle of absorptive capacity (Cohen and Levinthal, 1990). It is therefore advisable for contacts with the market and with specific clients to be developed by numerous subjects that interact with the external environment according to their specific skills (Shapiro, 1988; Day, 1994; Slater and Narver, 1995).

Knowledge must be able to spread freely through the organisation in order to improve the efficiency of the absorptive capacity, using the lever of generativity

(Donald, 1993), favouring direct access to information, without this being subject to interpretative filters. The wealth of unfiltered knowledge, which is therefore still able to express its full potential (Shapiro, 1988), requires specific information systems for its management.

This model of knowledge management differs from the model based on a rereading of the marketing concept (Felton, 1959; McNamara, 1972). This stated that the marketing function should play a prominent role in the collection of information, which would result in the results of the related analyses being disseminated subsequently; the MDM model is characterised by a more intense interaction between the components of the organisation and high profile customers, even if this solution is more expensive.

The process of the generation and dissemination of knowledge about customers' needs, must then translated into reaction and response processes extended to the entire organisation, in terms of the formulation of action plans and their implementation (Jaworsky and Kohli, 1993).

What is more, correct management of these processes makes it possible to exploit in full the firm's capacity for innovation (Hurley, Hult, 1998), which can be expressed in two ways: on one hand, innovations regarding product characteristics, and on the other, innovations regarding the ways that the product reaches the customer (Kumar, Scheer and Kotler, 2000).

The organisational culture affects resources and capabilities because it fosters learning and the integration of the specialist knowledge of different operators, and it allows the company to develop new capabilities and new knowledge faster and more effectively (Moran and Ghoshal, 1999). It also lays the foundations to achieve a sustainable competitive advantage when the resulting learning derives from tacit knowledge (Polanyi, 1967) which raises the barriers to imitation related to causal ambiguity (Reed and De Filippi, 1990).

In time, the resources and capabilities of market-driven businesses influence the organisational culture oriented to satisfying the consumer's explicit or implicit needs (Day, 1999). We must however point out that these capabilities must interact freely with the other capabilities, resources and skills at the company's disposal, if it wishes to achieve a sustainable competitive advantage (Day, 1994). Otherwise they risk being transformed into core rigidities (Leonar-Barton and Dorothy, 1992) because of the competency trap (Levinthal and March, 1993), i.e. the individual's tendency to exploit what he already knows rather than acquire new knowledge. This would lead to an imbalance of knowledge exploitation over knowledge exploration, or the use of the same resources to relate to the outside world, limiting the potential for learning and innovative change (Donald, 1993; Slater and Narver, 1995).

As we have seen, the climate, or rather the processes and actions that derive from it, let the company develop new skills and exploit them to improve its skills and resources (Dierick and Cool, 1989); they also provide the foundation for an analysis of the competitive gap (Day, 1994; Connor, 1999) between the current composition of its portfolio of resources, capabilities and skills and that necessary to meet future competitive challenges.

The climate is strictly linked to the organisational culture that represents the values it rests on (Schneider and Rentsch, 1987; Isaksen and Ekvall, 2007), and

therefore influences its operating processes and response mechanisms. At the same time, the processes of the generation, dissemination and exploration of knowledge can lower the resistance to change on the part of the organisational culture (Trice and Beyer, 1993).

The combination of all these elements - culture, capabilities, configuration and climate - favours the process of organisational learning in a market-driven firm (Slater and Narver, 1995), which guides the continuous development of capabilities and skills in time and must influence all corporate behaviour (Shapiro, 1988; Jaworsky and Kohli, 1993). Learning sustains the process of identification and satisfaction of possible 'demand bubbles' (Baker and Sinkula, 1999; Corniani, 2002), temporary aggregations of customers characterised by a close interest, even if temporary, in the company's specific products. In situations of over-supply and complexity, the limits of the market segmentation techniques emerge, and an active approach to the creation of these clusters of demand through the specific products offered by the company prevails. This capacity to create ever new demand bubbles, not only qualifies the direct relationship with 'economically significant' customers – typical of MDM – but also potentially transforms a temporary competitive advantage (exploitation of a single demand bubble) into a sustainable one (continuous creation of new demand bubbles). The main characteristic of a demand bubble is its temporary nature, which excludes the use of traditional market-intelligence tools (Gnecchi and Corniani, 2003). What is more, focussing on demand bubbles also allows a firm to limit the threat of time-based competition (Brondoni, 2001, 2007).

2. Resource-Based Theory and Market-Driven Management

The approach known as Resource-Based Theory (RBT), which is said to originate from Penrose's idea (1959) of the firm as a coordinated 'bundle' of resources, tackles the question of a firm's goals and strategic behaviour (Barney, Della Corte, Sciarelli, 2008; Della Corte, Sciarelli, 1999). If the strategy is 'a firm's theory about how to compete successfully' (Barney, 2002), the source of the sustainable competitive advantage is the capacity to exploit a bundle of resources that the business has at its disposal or has access to, which are valuable, rare and inimitable (Wernerfelt, 1984; Barney, 1991). The organisation, in the widest sense of the term, must favour the coordination and complete exploitation of the potential of these resources.

Mechanisms that block or limit imitative processes (barriers to imitation) play a decisive role. Unique, unrepeatable historical conditions or the availability of systems to protect innovation (patents), combine with conditions of 'causal ambiguity' and 'social complexity'. In some cases, tacit understanding, complexity and specificity of resources can make the causal connection between resources and competitive advantages indecipherable. A business culture, a reputation, and interpersonal relations between managers may be the result of socially complex phenomena and therefore difficult to replicate.

The focus of the sources of competitive advantage is concentrated inside the company, far from the structuralist vision of Industrial Organisation studies

(Porter). However, from the RBT viewpoint, the evaluation of resources cannot overlook an analysis of the external environment (Wernerfelt, 1984; Barney, 1991; Peteraf, 1993) or of the effects that this may have on the competitiveness of the company's portfolio of resources, as a result of both sector dynamics and the process of technical and economic obsolescence. The analysis models *elaborated* by RBT scholars for the external environment (Wernerfelt, 1984; Amit and Schoemaker, 1993; Barney, 2007) explicitly refer to sector analysis models like Porter's models (1980, 1985), but these are also re-interpreted so that they do not address the role/positioning of products/activities but those of resources and the related effects.

The dynamism of the environment and the need to take into account the obsolescence it generates, force a business to constantly update its portfolio of resources. This takes place in three main ways: acquisition of resources externally; internal generation of resources; sharing of resources with other companies.

In the first case, the company acquires the resource directly from outside, addressing ideal Strategic Factor Markets (Barney, 1986), i.e. markets on which the specific resource requested by the company is traded. The efficiency with which the market expresses the value of a resource through the price obtained by free negotiation between demand and supply, can hinder a company from taking advantage of the resources acquired in this way. Unless there are imperfections in the market mechanisms, the price will allow the seller to keep the higher value that the resource has for the company, limiting the contribution it makes to a superior performance for the company (Porter, 1980), unless the purchasing company's information about the possible value of the resource is better than the seller's (Barney, 1986)⁴.

Dierickx and Cool (1989) point out that there may be resources for which it is not possible to create a market because they cannot be assigned a value, due to their specific nature. In these cases the firm may only procure the necessary resource by producing it internally with a process of accumulation that must be managed carefully in time.

The growing instability of the markets limits the possibility of developing resources internally; in this case the company can establish a relationship, not necessarily commercial (alliance), with one or more firms with the necessary resource, creating a strategic alliance (Ireland, Hitt and Vaidyanath, 2002), to undertake, or at least facilitate, learning processes and boost internal resources (Nonaka and Takeuchi, 1994). On the other hand, this makes it difficult for company management to monitor the evolution of the strategy while it requires the company to develop dedicated resources and capabilities to manage the cooperation and potential for conflict that coexist in any agreement (Das and Teng, 2000).

In the context of RBT studies, the very concept of resources was the object of different classifications and definitions by exponents of this field of research. Some authors would prefer a more general vision, using the term 'resource' generically to indicate the tangible and intangible factors that determine and limit strategic corporate decisions (Barney, 2007). Others would distinguish between resources and capabilities: the term resource should be used to indicate the manufacturing factors at the company's disposal, even if not its property, while capabilities would refer to the company's capacity to exploit the resources, and their combinations,

through organisational processes to achieve a set goal (Amit and Schoemaker, 1993).

It is easy to understand, even from this very brief analysis, that RBT and MDM have several points of contact; not only do they share a possible application in the field of strategic management (Wernerfelt, 1984; Shapiro, 1988) but, albeit with a different original matrix (Drucker for MDM and Penrose for RBT), they reach a compatible vision of business. And the very concepts that underpin RBT, the heterogeneity of the portfolio of resources and the presence of barriers to imitation, are also present, explicitly and implicitly, in MDM literature (Day, 1994; Slater, 1997; Hult and Ketchen, 2001; Hooley *et al.*, 2005; Milfelner, Gabrijan, and Snoj, 2008).

MDM puts the role of the resources, or rather of the capabilities, in the forefront in the process of creating sustainable competitive advantage, even though they are primarily marketing capabilities oriented at the outside world. According to Day (1994), the organisation's role is to mediate and to encourage the distinctive resources and capabilities in the creation of supply. The author gathers various RBT studies into a consistent model: *resources* are stocks of capabilities that must be renewed (Diericks and Cool, 1989) using *capabilities*, flow variables, (Amit and Schoemaker, 1993), and combined with specific *skills* (Hamel and Prahalad, 1990), which allow the bundles of products/services of the market-oriented business to be differentiated, in order to achieve and sustain a competitive advantage.

Satisfying the customer's needs has a pre-eminent role in the achievement of competitive advantage, even in RBT (Peteraf and Barney, 2003); however, in the MDM view, attention is focused on a specific class of customer, the economically significant, posing the problem of establishing dynamic relations with market aggregations that develop as an effect of the stimuli from the supply of the market-driven company.

The reference is to the dynamics of 'demand bubbles' (Brondoni, 2001, 2007; Corniani, 2002; Gnechi and Corniani, 2003) which are more volatile than the traditional concept of sector, strategic grouping or market segment, and make it necessary for business to identify precisely, and well in advance, the characteristics that its products must have to 'select' the clientele (Shapiro, 1988).

This difference is reflected in a different approach to organisational learning. Because it expects firms to incorporate a striving for innovation in their culture and to pursue it actively by learning generated with the outside world, MDM tends to shift the balance in favour of exploration that originates primarily from knowledge of the needs and forces that play a significant role in determining and adapting these needs. The market-driven company is not only oriented to the market, but also tends to orient the market. It therefore has a consistent capacity to influence and a consequent market power, or certainly aspires to attain them.

One point of contact with RBT is however evident: one barrier to imitation identified by Barney (1996) is a firm's ability to constantly innovate its products, continually increasing the value perceived by the customer. This barrier to imitation is particularly effective in modern hyper-competitive sectors that tend to converge with adjacent sectors, because it allows the company to adopt a proactive approach to the generation of sustainable competitive advantage.

On the other hand, although it recognises the existence and effectiveness of the various types of barrier to imitation, MDM strives towards continuous innovation processes that can enable the company to escape the potential pressure of the competition, by identifying new customer needs to satisfy.

The concepts of social complexity and causal ambiguity in protection from the competition do not emerge explicitly in the MDM approach. However, the principle underlined in the organisational configuration, or in the climate (Narver and Slater, 1990), of the free and unfiltered dissemination of knowledge and, in particular, an orientation allowing relations to be established with the customer by several parties inside the company, beyond the functional confines of marketing, would appear to be an implicit answer to the problem of not knowing the source of knowledge. In fact, imposing a system of multiple relations (not of the one-to-one type) by encouraging free, unfiltered flows of information to and from the customer, may help to minimise the problem of causal ambiguity and social complexity. But at this point, the organisational 'glue', the culture and climate of internal relations, is essential. In fact the problem of the risk of opportunistic behaviour within the company and in relations with customers is never raised, because a distinctive feature of market-driven organisations is a high degree of loyalty, fed by the system of values and by the widespread business culture.

Both theories start from the concept that the characteristics of the organisation are not easily modified (Barney, 1986; Shapiro, 1988) and that the correct orientation of the organisation is essential if it is to succeed in achieving a sustainable competitive advantage.

In RBT, the organisational structure in its broadest sense (including processes and procedures, managerial mechanisms and operational tools) becomes an *activator* of the competitive advantage, similar to the prescriptions of MDM, which demand that the structure be organised to allow complete exploitation of the communications flows that underpin learning dynamics, and be sufficiently flexible to adapt to new demand bubbles.

3. Conclusions

To conclude this brief article, it could be useful to suggest a few topics for further analysis, in the hope that a debate may be tabled on these issues.

One aspect to check regarding comparison regards the breadth and detail of the scope of the two views analysed. If it is now a fairly widespread opinion that the resource-based view provides a theoretical reading of the rudiments on which a company is founded (business theories) and of its strategic behaviour (strategic management), one doubt remains regarding the Market-Driven approach: does it also aim to provide a generalised key to interpret competitive corporate behaviour, or is the MD business a particular type of successful enterprise, in particularly dynamic and complex contexts?

There appears to be evidence that MDM tends to have a marginally more limited field of application than RBT, but that at the same time, by defining the content of the market orientation and, with it, the specific resources and skills that the company must develop and/or acquire in order to compete successfully on the

market, it has a level of detail that is not always present in RBT. Systems are also proposed to measure the value of market orientation using different indices, such as the MKTOR of Narver and Slater (1990), the MARKOR of Kohli, Jaworsli and Kumar (1993), or the Culture – Customer orientation – Innovativeness model of Deshpandé, Farley and Webster (1993). This would appear to respond better than certain RBT arguments to the classic criticism of the adaptability of the basic contents of the theory in management terms.

A comparison of the two theories also reveals areas in which the link between RBT and MDM should be developed further: the role of alliances and co-opetitive forms, and the applicability of the model to SMEs.

As highlighted by Connor (1999), MDM demands that the resources to satisfy the current market, and the resources necessary to compete in possible future scenarios that it outlines be managed simultaneously. This theory does not appear to ask how this extra endowment of resources can be made available to SMEs that find it particularly difficult on their own to acquire the necessary capabilities to analyse and control the market. What is more, since in this case the main problem is the lack of excess resources, it is natural to think that this element may also be an obstacle to the development of MDM with specific reference to the start-up of new businesses. If the MD business is characterised by strong market power and the ability to forge relations with the customer and to promote new demand clusters, can a small-medium enterprise respond in an evolutionary manner to this challenge for change without changing its size? Is it able to create demand bubbles on its own?

What is more, the very concept of the demand bubble implies that the market cannot be segmented, because of the continuous variability of customer aggregations; this characteristic increases the advantage of the first-mover, enabling him to act at the most profitable stage of the life cycle. The consequences of reiterating this behaviour in time is that the business does not have a competitive advantage that is ‘sustained’ in time, but an advantage that has to be constantly recreated. This questions the very concept of sustainable competitive advantage.

Finally, this first attempt to compare schools of thought that are different but often only apparently distant, strengthens our opinion regarding the need to continue to study the points of contact and divergence that emerge between conceptual and theoretical elements, but also between different management models.

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Notes

¹ This vision of the marketing concept is illustrated by Drucker when he writes: 'marketing is so basic that it cannot be considered a separate function (i.e., a separate skill or work) within the business, on a par with others such as manufacturing or personnel. Marketing requires separate work, and a distinct group of activities. But it is, first, a central dimension of the entire business. It is the whole business seen from the point of view of its final result, that is, from the customer's point of view. Concern and responsibility for marketing must, therefore, permeate all areas of the enterprise' (Drucker, 1974, 63).

² Kohli, Jaworsky and Kumar (1993) identify different meanings attributed to the term 'market orientation' in literature, "including involving marketing executives in strategic decisions (Felton 1959; McNamara 1972), placing greater emphasis on customers as compared to production/cost concerns (Kanopa and Calabro 1971), integrating activities within the marketing function (Felton

1959; McNamara 1972), according a leadership role to marketing (Viebranz 1967), and so on (see Lavidge 1966 and McKitterick 1957 for additional perspectives),” and underline that they have depicted a more limited view than the one used in Market-Driven Management.

³ Webb, Webster and Krepapa (2000, 103) present these motivations for preferring the term ‘market orientation’ to ‘marketing orientation’: “First, the term implies that the construct is not exclusively a concern of the marketing function; whereas, ‘marketing orientation’ is restrictive and misleading in this respect (Shapiro, 1988). Second, the term ‘market orientation’ is less politically charged because it does not overemphasize the importance of the marketing function in the organization. And third, the label focuses on markets which include customers and the forces affecting them.”

⁴ We should point out that Barney also refers to another condition, in which a business can take advantage of the acquisition of resources externally, the one in which an unexpected change in the external environment increases the value of the resource after its acquisition, which the author puts down to luck. “Also, firms that currently enjoy above normal returns may do so because of unique insights and abilities they controlled when the strategies generating high current returns were chosen. On the other hand, these firms might also have been lucky.” (Barney, 1986).