Comparative Literature Study on Resource Based View and Dynamic Capability of The Firm

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ABSTRACT
Corporate strategic management theory is always developing dynamically towards the formation of Resource-Based Theory, which emphasis on resource gaps has been widely used in many organizations in various industries. Over time, contemporary views of the firm have emerged to broaden the scope of the development of firm theory. Current company theory focuses more on the theory of the company's dynamic capabilities in carrying out product innovation accompanied by a high ability to act responsively, quickly and flexibly in using external competencies effectively. This paper attempts to provide a literature review regarding the importance of resource-based company theory and dynamic capability-based company theory as the main priority for organizational development.

***Keywords**: Resource Based View, Dynamic Capability.*

1. INTRODUCTION

Strategic management theory always develops along with organizational developments from time to time. This discussion of literature regarding organizational development theory based on resources and knowledge provides support that organizations must secure a position in the market to continue to be able to compete in the future. When an organization has to face an economic situation that is very dynamic and full of all forms of uncertainty, the organization must be able to create added value to improve organizational performance. This requires data, information and knowledge from various sources. Transforming this data and information into knowledge and organizational learning processes is the main lever in organizational development. Based on this background, the author feels it is important to discuss literature studies on Resource Based View and Dynamic Capability.

Resource-based view (RBV) is the most widely accepted strategic management theory. RBV is a theory that explains why companies can survive (Coase 1937). Resource Based View (RBV) views the company as a collection of assets or resources historically tied to the company on a semi-permanent basis (Wernerfelt 1984).

Figure 1 Conceptual Model of RBV on Company (adapted from Wernerfelt, 1984)

The basic assumption of RBV is that resources in a company combine into one (bundles) and the capabilities underlying production are not the same as each other. Companies that own and use resources and capabilities efficiently have greater opportunities to operate more economically and/or better satisfy customers. Diversity (heterogeneity) shows indirectly that a company that has various capabilities can compete and the minimum results it obtains are at least breakeven. While companies with marginal resources can only hope to break even, companies with superior resources will earn rents.

RBV is a dynamic theory, although some literature expresses its concept statically (Priem & Butler, 2001). There is a missing link between resource ownership and its use. Mahoney and Pandain (1992) reminded researchers that companies can achieve performance not because they have resources, but rather are determined by unique competencies

in utilizing their resources. Dynamic capabilities are seen as a company's ability to integrate, build, and reconfigure internal and external competencies to anticipate environmental changes. Theoretical approaches in RBV:

1. Barney's VRIO (valuable, rare, inimitable, non-substitutable) framework, a company also needs to be managed in such a way that it can utilize its resource potential optimally to achieve competitive advantage.
2. The type of process a company uses to utilize resources → dynamic capabilities framework (Teece, Pisano, & Shuen, 1997).

2. BACKGROUND TO THEORY DEVELOPMENT

In the nineteenth century, there was a lot of competition among companies, but most did not know how to achieve competitive results. Adam Smith revealed that there is an "invisible hand" that moves the market and is beyond the power of individual companies. This theory became increasingly apparent in the mid-nineteenth century, when the US began to build interstate railroads, and a mass market occurred where access to capital and credit became increasingly open. Gradually market forces became clearer with the presence of a manager in the company, Alfred D. Chandler Jr. call it the "visible hand". Since then, companies have begun to emerge that are vertically integrated and have many divisions (M-form), so that a formal approach to company strategy is needed. This was initially expressed by Alfred Sloan (chief executive of General Motors from 1923 – 1946). Cherter Barnadr also said that companies need to pay attention to strategic factors and not only rely on personal or organizational actions.

2.1. Main Characters and Proposed View Theory

Edith Penrose (1959) was one of the researchers who first introduced the importance of resources to a company's competitive position. Penrose stated that company growth, both internally and externally through mergers, acquisitions and diversification is related to the use of resources. Penrose & Rubin, Wernerfelt, in their research stated that using the RBV strategy is appropriate because for companies, resources and products are two sides of a coin. A company's performance is determined directly by its products, and indirectly (ultimately) by the resources used in the production process. Research on RBV is also characterized by publications: 1. Prahalad & Hamel (1990), The Core Competence of the Corporation, HBR: an important task of management is to create radically new products supported by the exploitation of the company's core competencies. 2. Barney (1991), Firm Resources and Sustained Competitive Advantage, Journal of Management: first formal form which then fragmented the resource-based literature into a comprehensive theoretical framework (and empirical testing). Jay Barney, who is the Father of The Modern Resource-based View, stated that RBV is related to strategic choices, assigning company managers with the important task of identifying, developing, and using key resources to maximize results. Barney based his articulation of the RBV on two basic assumptions, namely: (1) resources (and capabilities) are heterogeneously distributed among companies, and (2) these resources move imperfectly. Companies that have valuable and rare resources will gain competitive and performance advantages in the short term. Barney (1991) also believes that the description given by Dierickx & Cool (1989) is that to maintain this advantage in the long term, resources must also have inimitable and non-substitutable criteria. Barney's conceptual model can be seen in the following scheme:

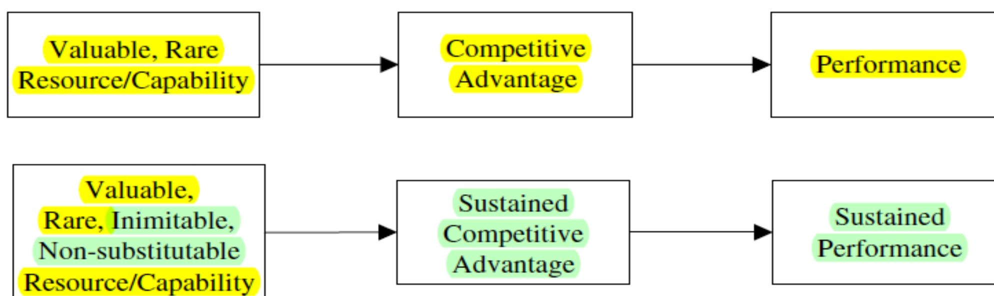

Figure 2 Barney's Conceptual Model (1991)

2.2. Theory Applications

Strategy is basically intended to fulfill two vital needs, the first is related to positioning relative to the company's external environment which requires an understanding of the environment in which the company is located. Second, to align the company's internal environment which includes all activities and investments. With strategy, each business unit's profits can be separated into two components: the industry average level of profit and a separation of that average applied to the competitive advantage (or disadvantage) resulting from the strategy in that industry.

RBV is one of the business level strategies that aims to gain Sustainable Competitive Advantage. Sustainable Competitive Advantage differs from Competitive Advantage in several ways. Sustainable Competitive Advantage when rival companies are no longer able to imitate or create substitutes for the resources of the company that has Competitive Advantage.

The Resource Based View states that company revenues can be above normal if they have much better resources and these resources are protected by some kind of isolation mechanism preventing their spread. These resources must also be valuable, difficult to imitate, have no substitutes and be rare. (Here the company's role is to ensure that it is not imitated or transferred to competitors). The order is as follows: 1. Identify and study resources that are critical to the company; 2. Determine capabilities (a collection of resources to be jointly used to complete a task); 3. Determine competitive advantage (a company's ability to outperform its rivals); 4. Determine areas within the industry (or other industries) where the company can leverage its strengths to take advantage of existing opportunities; 5. Strategy formulation and implementation to gain profits.

One example of this theory's application is companies providing services on a small scale or service industries on a large scale. Considering the characteristics of services, strategies for achieving resource-based excellence need to pay attention to pitfalls, such as differences in expectations and needs of various customers at the same time. A successful strategy is basically the result of how all company exponents carry out their responsibilities, regardless of what level they are in, or whether the company is equipped with technology or not. Resource management as a basis for business strategy in companies and service industries requires an interface between strategy and operations, because this affects the customer service experience.

3. Dynamic Capability

3.1. Discussion and Basic Assumptions

A fundamental question in the field of strategic management is how companies achieve and maintain competitive advantage. The implementation of "best practices" will help companies to survive in a turbulent environment, but if best practices are widely used by many companies, they cannot simply make the company generate profits in a competitive market situation. Likewise, mere discovery and innovation will not be enough to make a company successful.

Dynamic Capabilities include company capabilities that are difficult to imitate and require the ability to adapt to changing consumers and technological opportunities. The purpose of developing the Dynamic Capabilities theoretical framework is none other than to explain how companies achieve a level of competitive advantage in terms of resources in a sustainable manner, and to provide guidance for managers to avoid zero profit conditions that result when homogeneous companies compete in perfectly competitive markets.The basic assumption of dynamic capabilities theory is that a company's basic competencies should be used to modify short-term positions to build long-term competitive advantages.

Special characteristics of companies that have dynamic capabilities: 1. The environment is open to international trade and opportunities as well as threats; 2. Technical change itself is systemic; 3. A growing global market for product exchange; 4.The business environment is characterized by poor market development in its technological and managerial exchanges. The foundation for a company's success today rests little on a company's ability to be optimistic about the limits of knowledge, or to apply economies of scale to its production.

3.2. Background to Theory Development

Dynamic Capability theory emphasizes competitive resilience rather than the long-term competitive advantage proposed by the Resource Based View theory. This is motivated by the current conditions of economic development which are full of competition so that companies are required to survive (competitive survival). According to Dynamic Capability theorists, competitive advantage alone is not sufficient to survive, for example in the case of Nokia. Companies need to study how competitor companies behave, then build dynamic capabilities accordingly. When a company does not have a strong competitive advantage, the company can influence the steps taken by opponents by signaling. This is one part of games theory used in the Dynamic Capability approach.

3.3. Main Characters and Proposed View Theory

The dominant paradigm in the field of dynamic capabilities in the 1980s was the competitive forces approach developed by Porter (1980) which emphasized actions that companies could take to create a defensive position against

competitive forces. There are two strategic model approaches in the field of dynamic capabilities, namely a strategy model that emphasizes the exploitation of market power, and an approach that emphasizes efficiency.

The strategy model that emphasizes the exploitation of market forces consists of the competitive forces paradigm and the strategic conflict paradigm. According to the competitive forces paradigm, the essence of forming a competitive strategy is 'connecting the company with its environment, where the main aspect of the company's environment is the industry or industries in which it competes'. There are five models of competitive forces: (1) entry barriers, (2) threat of substitution, (3) bargaining power of buyers, (4) bargaining power of suppliers, and (5) rivalry among industry incumbents. Thus, in the market a monopoly system applies where the company that controls the competitive power receives "rents" from other companies.

The second paradigm is the strategic conflict paradigm. This paradigm was marked by the publication of the article 'The Theory of Business Strategy' by Carl Shapiro in 1989. This paradigm uses game theory tools to analyze competition between companies. Competition between companies is analyzed by looking at how the behavior of a company influences the behavior of its rivals and ultimately influences the market, so that company profits can be achieved through market manipulation. Companies that have a lot of costs and other competitive advantages like opposing companies will not be affected by the steps taken by opponents. When competitors do not have a strong competitive advantage, the steps of other competitors can be formulated using games theory. The point is, building a dynamic perspective on the business environment can help companies create strategies that can assist practitioners in building long-term competitive advantages and flexibility (this is something that is not present in the previous two theories).

The strategy model that emphasizes efficiency consists of a resource based perspective and a dynamic capabilities approach. According to the resource-based perspective, companies that have superior systems and structures gain profits not because they engage in strategic investments, but because they have lower costs. The company obtains profits not because of the product's strategic position in the market, but because of the company's scarce resources. Learned et al (1969) stated that companies have strengths and weaknesses, it is important to recognize them and differentiate them from other companies (competence that is truly distinctive). This theory is supported by Cool and Schendel (1988), Rumelt (1991), Jacobsen (1988), Hansen and Wernerfelt (1989).

According to the dynamic capabilities approach, competitive battles in the technology industry show the need for a paradigm to understand how to achieve competitive advantage. Strategies that prioritize resource superiority alone (as expressed in the RBV theory) are sometimes inadequate. Often the winners of the competition are companies that innovate products and are accompanied by a high ability to act responsively, quickly and flexibly, accompanied by the management ability to coordinate and use external competencies effectively. The ability to achieve this competitive advantage is dynamic capabilities. What is meant by dynamic is the capacity to update competencies and achieve harmony with a constantly changing business environment, while capabilities are management's main role in adapting, integrating, reconfiguring skills, resources and functional competencies both internally and externally to adapt to a changing environment. . One of the strategic problems in the competitive business world is finding hard-to-imitate internal and external competencies that can support valuable products and services.

3.4. Theory Applications

Dynamic capabilities theory is widely used in marketing practice, marketing theory, and marketing research. In marketing practice, it helps companies face new challenges. Companies and their employees need the ability to learn quickly and build strategic assets. New strategic assets such as capabilities, technology, and consumer feedback must be integrated into company activities. Existing company assets also need to be transformed and configured.

4. CONCLUSION

The strategy model that emphasizes efficiency consists of a resource based perspective and a dynamic capabilities approach. According to the resource-based perspective, companies that have superior systems and structures gain profits not because they engage in strategic investments, but because they have lower costs. The company obtains profits not because of the product's strategic position in the market, but because of the company's scarce resources. Meanwhile, according to the dynamic capabilities approach, competitive battles in the technology industry show the need for a paradigm to understand how to achieve competitive advantage.

Strategies that prioritize resource superiority alone (as expressed in the RBV theory) are sometimes inadequate. Often the winners of the competition are companies that innovate products and are accompanied by a high ability to act responsively, quickly and flexibly, accompanied by the management ability to coordinate and use external competencies

effectively. The ability to achieve this competitive advantage is dynamic capabilities. One of the strategic advantages in the competitive business world is finding hard-to-imitate internal and external competencies that can support valuable products and services.

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