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Critical Perspectives on Accounting

journal homepage: www.elsevier.com/locate/cpa

Accounting for competitive advantage: The resource-based view of the firm and the labour theory of value

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ARTICLE INFO

Article history:

Received 1 March 2007

Accepted 1 September 2008

Keywords:

Value creation

Resource-based view

Labour theory of value

Industry profitability

ABSTRACT

This article uses accounting concepts to assist the field of strategic management in its search for a theory of value, competitive advantage and superior profitability. Specifically, it argues that the resource-based view of the firm requires a labour theory of value creation. Using the *circuit of capital* as an organizing framework this article integrates RBV and Marx's value theory, by introducing the notion of *value* as socially necessary labour time, into the analysis of resource-based advantage. This enables us to identify the impact of particular sources of competitive advantage as they become diffused through an industry. Some resource-based advantages, when eventually imitated lead to an overall reduction in industry profitability, and other advantages lead to increases in industry average profitability.

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1. Introduction

An important problem in the strategic management literature is to establish linkages between managerial actions and their consequences in terms of measurable outcomes. In one strand of this literature in particular, the resource-based view (RBV) there is an explicit acknowledgement that the theory cannot be fully developed without reference to a consistent and complete theory of value (Miller and Shamsie, 1996, p.539; Makadok and Coff, 2002). Although there have been significant contributions in the critical accounting literature to the problem of value (Bryer, 1994; Tinker, 1980), which might assist in this respect, thus far there has been little interaction between the accounting and strategic management literatures. Both literatures are rooted in the classical traditions of Marx and Ricardo, and in view of this commonality, rather than add to the weight of critique of the RBV (for example and a summary see Priem and Butler, 2001), this article assesses whether the RBV can be developed from a more rigorous application of its too often unacknowledged intellectual origins. The purpose of this article is to propose an integration which offers the opportunity of a theory of competitive advantage consistent with a theory of value.

The field of strategic management concerns itself with identifying strategies that allow some firms to produce 'super-normal' profits. From the 1980s the structure-conduct-performance paradigm of industrial organisation economics dominated the field, which explained how competitive advantage derives from privileged market positions. Following Porter (1980) the strategy problem could be decomposed into decisions about (1) where to compete, as some markets are more structurally attractive to incumbent firms than others; (2) how to compete, which involves a basic choice between two alternative 'generic strategies'; and (3) strategy implementation.

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From the early 1990s an alternative explanation of superior profit performance emerged, labelled RBV. The RBV locates the sources of advantage inside the firm and views the firm as a bundle of resources (Amit and Schoemaker, 1993; Barney, 1991; Carter and Mueller, 2006; Rumelt, 1984). Resources that are simultaneously valuable, rare, inimitable and non-substitutable earn the firm rents in equilibrium. The RBV argument can be traced back to Selznick's (1957) idea of 'distinctive competences' and to Penrose's (1959), who perceived the firm as a collection of resources, and that performance depends on its ability to use them.

The RBV could be said to dominate discourse in the strategy field, and it has spawned other sub-fields like the knowledge-based view of the firm (e.g. Grant, 1996; Kogut and Zander, 1996), which focuses specific attention on knowledge resources, and the dynamic capabilities literature (Eisenhardt and Martin, 2000; Teece et al., 1997), which explores how firms can sustain resource-based advantages in rapidly changing environments. However, there are problems with the theory. For example, it can be argued to be tautological as we cannot know whether a firm has unique capabilities independently of the description of them (Carter et al., 2008; Priem and Butler, 2001). There are problems in empirically identifying unique resources: it is particularly difficult to attribute, unambiguously, superior performance to specific activities or assets. Moreover, resources occur in configurations with complex interaction effects between resources, some synergistic, others conflicting. And as a theory of competitive advantage, the RBV has little advice to offer managers, and, to date, there has been little empirical work into how resources come about.

But rather than address these and other problems with the RBV we focus here on the question of value and what 'valuable' might mean in the RBV. We would suggest that although the RBV is concerned with the role of valuable assets, it does not have a theory of value, and is unlikely to find one from the neo-classical perspective that dominates the field. Instead, when not relying on conventional economic theories of market imperfection, the RBV uses Ricardian rents to explain excess profits (for example, Barney, 1986a, 1986b, Conner, 1991; Makadok, 2001; Peteraf, 1993; Wernerfelt, 1984) as part of a taxonomy of rent earning opportunities (Peteraf, 1994). These Ricardian RBV perspectives utilise the notions of inelastic factor supply or heterogeneous resource picking skills. In these respects, they are manifestations of classical Ricardian approaches, but which ignore the neo-Ricardian approach. This is surprising since Sraffa's (1960) neo-Ricardian theory offers an explanation of wages, profits and prices, consistent with Marx's first volume of *Capital*, all of which are potentially important to the establishment of a resource-based theory of the firm. Sraffa's analysis offers a useful starting point, but only insofar as it explains the technical relationships between these categories in a homogeneous commodity-based economy. In the RBV heterogeneous processes of value creation are all important and, as in Marx's more general analysis, a function of social relationships.

In the critical accounting literature, there has been much discussion of how accounting is implicated in the policing of the social relations of production. There has also been much discussion of the nature of value, how it is measured and its relation to the rate of profit (Bryer, 1994; Tinker, 1980; Toms, 2006a, 2006b, 2009a,b). There has also been some development of practical accounting techniques to deal with the analysis of competitive advantage, although typically these have not incorporated the RBV (see for example Roslender and Hart, 2003).

What is needed therefore is a model incorporating a robust theory of value, thereby explaining different profitability outcomes in different competitive situations. Such a model is presented below in the remainder of this article, which is structured as follows. We begin with a summary of the RBV that concludes that there is sufficient scope within the view to justify the introduction of an explicit labour theory of value perspective. Then we compare in broad outline the RBV and Marx's labour theory of value and conclude that there are important and fundamental similarities between the theories. We then set out a critical component of Marx's theory, the circuit of capital. We use the notation of the circuit to explore four primary types of resource creation process. The processes of profit rate equalization are then considered, and we explore what happens to average industry profitability when these resource advantages are imitated. We explain that some types of resource advantage when diffused throughout the industry lead to average profits falling, whilst other resource advantages, when copied, lead to increases in average profitability. Finally propositions are set out that capture the essential arguments of this article.

2. Deficiencies in the RBV

Recent literature has recognised the need for a theory of value, and, as a result, two quite narrow and to some extent mutually exclusive perspectives have emerged. One examines processes within the organisation (Denrell et al., 2003), addressing value creation through adaptive learning, whilst another considers market interactions, particularly the division of value through bargaining games (Lippman and Rumelt, 2003a, 2003b). The first perspective concentrates on the role of human activity in creating competitive advantage, but without reference to a value creation process. The second perspective sets out some theoretical problems with the neo-classical underpinnings of the RBV, and puts forward an alternative, the bargaining and payments perspectives, which offer a theory of rent and value distribution, but again without considering the process of value creation. In another example of this approach, value is merely a function of market structure, or the presence of a willing buyer (MacDonald and Ryall, 2004).

To develop these interpretations further a theory which reconciles value creation and value distribution is necessary. Recent literature has begun to explore this possibility. Using the distinction between separable, typically physical, and embedded resources, or assets, which include brand value, processes and procedures, Bowman and Swart (2007) usefully extend the Lippman and Rumelt (2003a) bargaining perspective to inside the organisation. They develop a model to show

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