

The Resource-based Theory of the Firm

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Interest in the resource-based view of the firm continues to grow in the field of business policy and strategy (Barney and Zajac 1994). Recently, most of this interest seems to have been focused on understanding the empirical implications of this theory and especially on how a firm's resources and capabilities can affect its performance (e.g., Godfrey and Hill 1995; Barnett, Greve, and Park 1994; Henderson and Cockburn 1994). Evaluating the empirical implications of the resource based view is, of course, a worthwhile endeavor.

However, from the early 1990s, several resource-based scholars have been interested in applying this theory in the development of a theory of the firm. For example, both Conner (1991) and Kogut and Zander (1992), building on the ideas of Demsetz (1988), made the development of a resource-based, or knowledge-based, theory of the firm a primary objective of their conceptual work. Of course, this effort was, from the outset, very controversial. Ever since Coase (1937) and Williamson (1975), a widely accepted theory of the firm has already existed in the organizational economics literature. Any newly proposed theories of the firm, whatever their theoretical underpinnings, would not only have to explain the existence of firms, but would also have to explain why they were needed. Explaining why a new theory of the firm needed to be developed necessarily involves discussing the limitations and weaknesses of traditional transactions cost theories of the firm.

In this context, it is not surprising that the publication of the Conner (1991) and Kogut and Zander (1992) papers has caused a fair amount of discussion and debate. One scholar, Nicolai Foss of the Copenhagen Business School, submitted a very powerful critique of these papers to *Organization Science*. After this paper was reviewed, revised, and accepted, both Conner and Kogut and Zander were invited to respond to Foss's critique. Much to their credit, these scholars took Foss's critique seriously and used the opportunity to respond to Foss to more fully develop their original ideas and arguments. Thus, rather than the traditional

two-to-three-page response to Foss, both Conner (with her coauthor, C. K. Prahalad) and Kogut and Zander wrote standard paper-length responses to Foss. After these responses were reviewed, revised, and accepted, Foss was then invited to respond to both Conner and Prahalad and Kogut and Zander.

The result of this dialogue is, I think, one of the most stimulating discussions yet about the potential, and difficulties, of developing a resource-based theory of the firm. Given the complexity and subtlety of this topic, it is not surprising that these papers raise many more issues than they resolve. However, it is very likely that these papers will serve as the foundation upon which this ongoing debate can build.

References

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