

The Resource Based Perspective, Rents, and Purchasing's Contribution to Sustainable Competitive Advantage

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The resource based perspective (RBP) within the field of strategy seeks to understand the relationship between a firm's resources and its competitive advantage. Some RBP authors have concluded that it is logically *impossible* for organizations to generate

SUMMARY

sustainable competitive advantage from purchasing activities. One of this article's central objectives is to test the validity of that conclusion.

It is hoped that the completion of that task may make it possible to assist in the process of raising the purchasing function's strategic profile in the modern firm.

INTRODUCTION

The resource based perspective (RBP) is a developing subset of the strategy field that focuses on questions to do with firm heterogeneity, economic rents, and competitive advantage. At first glance, there would appear to be little of direct relevance to purchasing. However, an examination of the literature¹ reveals that in answering these questions, the RBP focuses on the range of different resources employed by organizations, the way in which those resources are managed, and the contribution those management practices make to an organization's sustainable competitive advantage. The purchasing function's responsibility for managing the firm's external resources suggests that insight into the function may be gained from a conceptual approach that focuses on resources. It will be shown that a mastery of the technical language of the RBP may be used by managers to enhance both the strategic profile of the purchasing function and its contribution to an organization's sustainable competitive advantage.

THE RBP AND THE THEORY OF THE FIRM

The RBP is an addition to the existing models within economics concerning the nature and functioning of the firm. Conner (1991) offered a useful overview of the area — an outline will highlight the particular flavor of the RBP. The neoclassical perfect competition model sees the

¹Although based in the strategy field, the RBP incorporates ideas from a number of other academic areas. Thus, it embraces not only the work of Andrews (1971) and Prahalad and Hamel (1990) (inter alia) on competencies, but also a number of authors such as Eisenhardt (1989), Barney and Ouchi (1986), Alchian (1984), and Williamson (1985) more commonly thought of as part of organizational economics. The perspective also lays claim to a proportion of the output of industrial organization analysis in the form, for example, of articles by Caves (1982), Porter (1980), Bain (1968), and Demsetz (1982). Not all of the perspective consists of work originally published in other contexts, however. There are a growing number of authors who have been writing for the perspective directly. The main articles under this heading may be listed as follows: Amit and Schoemaker (1993); Barney (various); Black and Boal (1994); Collis and Montgomery (1995); Conner (1991); Dierickx and Cool (1989); Grant (1991); Jacobsen (1988); Lippman and Rumelt (1982); Mahoney and Pandian (1992); Oliver (1997); Peteraf (1993); Reed and DeFillippi (1990); Rumelt (1984); and Schoemaker (1990).

firm as a production function, a process whereby inputs are converted to produce outputs.

The conversion process itself — the process whereby the inputs the firm gathers are actually converted into outputs, i.e., goods and services for sale in markets — remains largely unexamined (see Figure 1). The firm itself is seen as a “black box” and no effort is made to try to understand the nature of the processes that go on within it.² The model assumes that all firms are homogeneous and predicts that for the individual firm, competitive advantage and long-term above-normal profits are unsustainable. Despite its title, the focus of the model is not really on firms at all, so much as the nature of the markets in which they operate. This focus is reflected in the structure-conduct-performance (S-C-P) approach within Industrial Organization theory that was developed primarily from Bain's work in the 1940s and '50s,³ and stresses the importance of industry structure and the effects of entry barriers, organization size, and monopoly power on prices (see Figure 2).

The theory argues that there is a causal link between the structure of the market (by which is meant the degree and type of competition) in which an organization operates, the organization's conduct (behavior in terms of pricing practices, advertising, and the like), and in turn the organization's performance in terms of profitability. Consequently, Industrial Organization theory concentrates on examining the effects of firm size and industry entry barriers.

The RBP shares with the S-C-P model the notion that firms seek above-normal returns, but the RBP focuses on the conversion process, products, and costs of individual organizations, rather than on whole industries or market conditions. Thus, the emphasis is on the earning of above-normal returns through successful product differentiation and/or low output prices. It is assumed that firm heterogeneity results from the effects of different combinations of inputs to the conversion process. This is accompanied by an examination of the effects of imperfect factor mobility on organization performance. The analysis is conducted in terms of rents rather than profits. The RBP seeks to explain how firms generate rents, and from there how rents can be protected from competition, and thus how competitive advantage might be sustained. In terms of Figure 1, the RBP seeks to understand some of the processes going on within the black box that is the firm.

PURCHASING, RESOURCES, AND RENTS

Some authors in the RBP have expressed an interest in the firm's contact with input-factor markets.⁴ Thus, Foss argued:

The concepts of *ex post* and *ex ante* competition and imperfect mobility bring into play rather specific

²See footnote 10 also.

³Bain (1950, 1951) are representative of his work in that period.

⁴Foss (1997), Barney (1986), and Dierickx and Cool (1989).

Figure 1

THE NEOCLASSICAL ECONOMICS VIEW OF THE FIRM

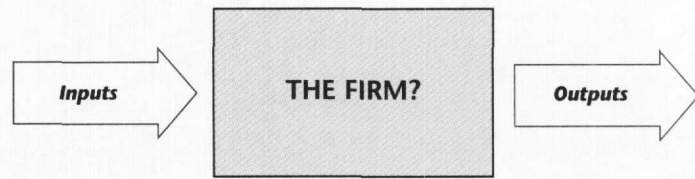
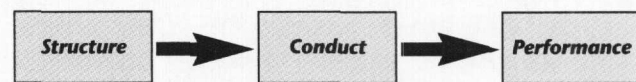


Figure 2

THE STRUCTURE-CONDUCT-PERFORMANCE MODEL



players, such as suppliers (whose pricing decisions influence how much rent can be captured), competing would-be imitators, and employees (who are engaged in a bargaining game with the firm over the rents that their human capital yield) (Foss 1997).

Since suppliers are one of the stakeholders in this game, the buyer-supplier relationship is one arena in which the struggle for control of rents is carried out. Moreover, as one shall see below, the RBP discusses the role of purchasing (albeit indirectly and dismissively) in the exploration of the sources of sustainable competitive advantage (SCA). Much of that analysis is based on a discussion of rents.

Rents are profits above the level achievable in perfectly competitive markets. Efficient market theory in neoclassical economics suggests that long-term rents will be competed away,⁵ but the RBP suggests that organizations may generate and protect rents in the long term. There are several different forms of rent. Prior to the RBP, *Ricardian* rents were thought of as being generated for individual firms in possession of superior productive factors that were fixed in nature and in short supply (see Montgomery and Wernerfelt 1988). Peteraf (1993) pointed out that it is possible to obtain rents from resources that are fixed in the short term, but whose supply may be increased over time. This allows the introduction of “quasi-fixed” resources such as collective learning, core competencies, and knowledge-based resources in general. Montgomery and Wernerfelt, meanwhile, in a discussion of particular

⁵See, for example, Mahoney and Pandian (1992, p. 364).

interest to purchasing, argued that firms may also generate rents from factors that they share with others:

Firms also may appropriate substantial rents as trading partners of factor owners, provided that relationship specific investments tie the parties together. In such cases we shall say that the firm *shares* the factor in question. For example ... the firm may employ a manager or use a supplier who makes unanticipated investments that cement the trading relationship by creating switching costs (Montgomery and Wernerfelt 1988).

From the buyer's point of view, it is usually desirable for suppliers' switching costs to rise and for suppliers to become more dependent on the buyer. The net effect of such changes is to increase the buyer's potential purchasing power⁶ and thus the possibility of earning Ricardian rents expressed as reduced input prices or an otherwise improved match between the buyer's and seller's specifications. Ricardian rents generated from shared assets may prove to be the main source of purchasing's contribution to an organization's competitive advantage.

PURCHASING AND STRATEGIC CONTRIBUTION

One may argue that the RBP offers the purchasing field a new vocabulary for thinking about purchasing's potential contribution to sustainable competitive advantage. However, a wide variety of other authors have already explored this subject area without the benefit of that particular box of linguistic tools. The father of this line of research is, arguably, David Farmer, who fought a long, lone battle a quarter of a century ago in the United Kingdom in an attempt to raise the purchasing function's strategic profile (see Farmer 1976, 1978, and 1981, for example). The most concentrated European effort in recent years has come from Andrew Cox, who has devoted considerable time to developing ideas surrounding purchasing's strategic role (see Cox 1996 and 1997, in particular). In the latter title, he came to a provocative conclusion that flies in the face of the continuing popularity of non-adversarial, partnership approaches to strategic buyer-supplier relationships when stating that:

The strategic goal of the individual or the company is always to maximise the appropriation and accumulation of value from participation within a supply chain (Cox 1997).

Cox has not been alone in recent years in addressing strategic issues. The 1990s saw an outflowing of purchasing articles on both sides of the Atlantic dealing with strategic issues (see, for example, Cammish and Keough 1991; Carr and Smeltzer 1997; Dyer 1996; Jessop and Jones 1995; Van Weele and Rozemeijer 1996; White and Hanmer-Lloyd 1999). Ellram and Carr's 1994 article offers an admirable overview of the literature. However,

⁶See Ramsay (1995, 1996).

none of these valuable contributions has dealt with an apparently crippling problem for purchasing theorists and practitioners raised by the RBP analysis of the sources of competitive advantage.

The Problem

As previously mentioned, the discussion of rents offered in the RBP literature may help one to see purchasing activities in a new and possibly useful light. From a strategic viewpoint, however, the generation of rents alone is insufficient. There is little strategic value in being able to produce rents that competitors can readily imitate. Hence, the RBP's focus on the generation of long-term, *sustainable* competitive advantage.⁷ Whether or not purchasing is capable of generating SCA depends partly upon the meaning of the word "sustainable" in this context. Dierickx and Cool suggest that:

Sustainability of a firm's privileged asset position hinges on how easily it can be replicated. If certain assets cannot be bought in factor markets rivals may either attempt to *imitate* them by accumulating similar asset stocks of their own or they may try to *substitute* them by other assets (Dierickx and Cool 1989).

Hence, sustainable purchasing rents will only be generated by activities that buyers' competitors find impossible to replicate. At this point, several⁸ of the leading authors in the RBP raise a logical objection and argue that purchased assets *cannot* be a source of such rents. For example:

Many inputs required for the implementation of a firm's product market strategy may be bought and sold in corresponding factor markets ... However the deployment of such assets does not entail a sustainable competitive advantage, precisely because they are freely tradable (Dierickx and Cool 1989).

Peteraf, in discussing the same topic, observed that assets that are difficult to imitate are:

Nontradable assets which develop and accumulate within the firm. Such assets tend to defy imitation because they have strong tacit dimensions and are socially complex ... their development is "path dependent" in the sense that it is contingent upon preceding levels of learning, investment, assets stocks and development activity ... Importantly, assets of this nature are also immobile and thus bound to the firm (Peteraf 1993).

This clearly excludes assets purchased on markets. The same point was made even more directly by Barney, thus:

In the end, what becomes clear is that firms cannot expect to "purchase" sustained competitive

⁷There are many articles on this topic. See, for example, Barney (1991), Dierickx and Cool (1989), Peteraf (1993), and Reed and DeFillippi (1990).

⁸For other examples of this argument, see Conner (1991, p. 137), Prahalad and Hamel (1990, p. 84), and Teece and Pisano (1998, p. 197).

advantages on open markets ... Rather such advantages must be found in the rare, imperfectly imitable, and non-substitutable resources already controlled by a firm (Barney 1991).

There can be little doubt, then, that many RBP authors reject the idea of organizations gaining a sustainable competitive advantage through their purchasing activities. At first sight, this conclusion looks profoundly depressing for the purchasing function. If it is correct, then core purchasing activities are incapable of generating SCA. However, the conclusion is based on an oversimplification. The fact that an input can be bought in a factor market does not mean that it is "freely tradable." It will be shown not only that there are a host of factors that restrict the availability of purchased resources to competitors, but that the act of purchasing resources can also be controlled in such a way as to generate SCA. Moreover, there are grounds for undertaking such a task.

The RBP is currently one of the most active areas of academic research into the mysteries of the "black box" in neoclassical economic theory. The purchasing function, meanwhile, has collectively spent several decades and a large amount of effort attempting to gain some credibility and visibility as a strategically important function within the modern firm. It would be unfortunate indeed if those hard-won gains were to be thrown away because of a failure to challenge an influential but oversimplified theoretical analysis. The rest of this article is devoted to mounting just such a challenge. It is hoped that by attacking the validity of the strategic problem for purchasing identified by the RBP, it will become possible to understand how the purchasing function might make a valuable contribution to the task of generating sustainable competitive advantage.

PURCHASING AND SUSTAINABLE COMPETITIVE ADVANTAGE

It is possible to define the circumstances in which the conclusion reached above by, for example, Dierickx and Cool — that purchased assets *cannot* be used to generate a sustainable advantage — would *always* be valid, and from that to specify circumstances in which it would be invalid. Thus, circumstances may be defined in which the purchasing function *would* be able to generate a sustainable competitive advantage.

Underlying the RBP argument is the idea that if a factor market were sufficiently "open" or "free," then any organization would be able to imitate the purchasing behavior and performance of any other, and any individual organization's competitive advantage so gained would be rapidly destroyed as competitors duplicated the act. It is possible to describe what reality would have to be like for this to occur in *all* circumstances. In such a world, *every* purchasing function would first possess identically qualified and talented staff with identical knowledge and experience, serviced by identical technical support facilities, with equal access to the necessary

funds to cover the search and supplier development costs of resourcing or new product development, and with the same knowledge, or the ability to acquire the same knowledge, of all possible sources in all relevant factor markets. Second, it would be impossible for any individual organization to locate and trade with a supplier without the knowledge of its competitors. Third, there would be no assets whose nature prevented competitive imitation by rival purchasing functions. Finally, imitating the purchasing behavior of competitors would *always* be attractive. More formally, the necessary conditions for the prevention of SCA based on purchasing activities are:

1. All purchasing functions must be homogeneous (functional homogeneity).
2. All purchasing functions must have information relating to the activities of all rival purchasing functions (perfect competitor information).
3. All relevant resources must be available for purchase with identical purchase specifications, without restriction, by any purchasing function (perfect purchased resource mobility).
4. Imitation costs must always be less than likely revenues or profits, or, if negative, the net balance must still be attractive to potential competitors (universal imitation attractiveness).

The literature contains a wide variety of examples of resources employed by organizations to generate SCA from *non*-purchasing activities. The next section of this article uses the four conditions specified above as sub-headings under which to group an extensive selection of those resources as they apply to purchasing activities.

POTENTIAL SOURCES OF PURCHASING-BASED SCA

Functional Homogeneity

The idea that all purchasing functions are identical is, of course, absurd. In practice, they exhibit an enormous range of differences in performance, personnel, skills, experiences, and so on, some of which may confer an advantage that is hard to replicate. Functional *heterogeneity* may arise for a variety of reasons. Barney (1991) discussed the effect of "unique historical conditions," citing as examples organizations whose scientists are in a position to exploit a scientific breakthrough, or whose geographic location turns out to be unusually valuable. Purchasing equivalents might include purchasing staff who were unusually suited to a switch from adversarial to cooperative negotiating styles with the change in fashions in the 1980s,⁹ or buyers lucky enough to work for organizations that have become extremely large, and whose purchasing functions have thus come to possess huge amounts of purchasing power that smaller competitors are unable to replicate. Individual buyers possess

⁹If such a switch did indeed generate any such advantage.

widely differing skills, experience, knowledge, and abilities. The competitive advantage generated by a buyer who came to the job with a high level of natural ability that her employers improved through investment in sound training in negotiation techniques followed by an extended apprenticeship in the application of those skills under the tutelage of an excellent mentor, that was then consolidated and built upon through 20 years of negotiating at the highest international level, may be both considerable and *extremely* difficult to imitate.

Barney argued that complexity may also be a source of rents, thus:

A firm's resources may be imperfectly imitable because they are very complex social phenomena, beyond the abilities of firms to systematically manage and influence (Barney 1991).

He offered a variety of examples including interpersonal relations between managers, company cultures, and the like, all of which prove difficult to imitate. In the purchasing realm, equivalent concepts might include particularly good relationships between purchasing staff and suppliers, a reputation for trustworthiness and fairness in dealing with suppliers, and so on. The effects of this latter characteristic might be experienced, for example, in times of material shortages when buyers who have treated their long-term suppliers in an ethically sound manner may well find that they are afforded preferential treatment in the supply of scarce materials that are denied to their less ethical competitors.

Power is conspicuous for its absence from the SCA literature. Since many of the leading authors have a background in economics, and power tends to be treated as exogenous to the models they will have encountered in their training, this is perhaps not surprising. In general, improvements in a buyer's *expenditure/revenue ratios* (Ramsay 1996) lead to an increase in potential purchasing power, and this in turn tends to be reflected in, for example, reduced input prices and hence reductions in the buyer's average costs. Power is a critically important factor in every organization's strategic considerations, not least because power is a characteristic of all markets and all interorganization relationships. However, for all organizations to have equal access to identical purchased resources — as measured by price, delivery, quality, and so on — they must all possess and wield the same amount of purchasing power, but there are no grounds for assuming that power will be uniformly distributed. The magnitude of a buyer's purchasing power is, for example, directly related (*inter alia*) to the relative importance of that buyer's business to the supplier in question. This varies considerably from buyer to buyer and is frequently directly proportional to the overall sales volume of the buyer's organization (see Ramsay 1995). Consequently, there may be little that a buyer's competitors can do to bring about significant

increases in their influence, and purchasing power may, as a result, become a significant source of SCA.

First-mover effects are widely discussed as an SCA source, and it is apparent that purchasing may benefit from the three main sources of first-mover advantage — technological leadership, preemption of assets, and buyer switching costs (Lieberman and Montgomery 1988).

Two basic mechanisms (leading to technological leadership) are considered in the literature: (1) advantages derived from the "learning" or "experience" curve, where costs fall with cumulative input, and (2) success in patent or R&D races, where advances in product or process technology are a function of R&D expenditures (Lieberman and Montgomery 1988).

The "technology" mentioned above may refer to "administrative" as well as production processes. Thus, the development of innovative and effective new supplier relationships may generate advantage, as may any other aspect of buyer-supplier relationships, or of the purchasing specification that reduces costs, improves timeliness of deliveries, quality, or customer satisfaction, and the like, but takes time to develop. There is no reason to suppose that all such advantages will be immediately imitable by competitors. The learning invested in purchasing activities and processes is no different in kind from that required in other functions. Thus, buyers who succeed in the extremely difficult, time-consuming, and expensive process of developing genuine partnerships with some of their key suppliers may well reap a competitive advantage in the form of, for example, an improved ability to respond rapidly to changes in sales market conditions demanding radical product changes. They are likely to have an edge in this area in comparison with competitors enmeshed in acrimonious, adversarial buyer-supplier relationships in which every change requires prolonged negotiations and the application of every available ounce of purchasing power to recalcitrant suppliers.

No discussion of the main factors leading to heterogeneity of purchasing functions would be complete without a discussion of asset preemption, an event that occurs when:

The first-mover [is] able to purchase assets at market prices below those that will prevail later in the evolution of the market ... if these factors are bound to the firm by switching costs so that their mobility is restricted (Lieberman and Montgomery 1988).

Access to resources may, for example, be "accidentally" reduced by a buyer who works for an organization that develops a new product and establishes a relationship with a supplier that effectively ties up its entire output before competitors enter the same supply market looking

for resources. However, it is also possible for functions to set out *deliberately* to make it difficult for organizations to gain access. Courtaulds, for example, gained a significant cost advantage in the viscose market by gaining control of the pulp dissolving process (Ghemawat 1986). Porter listed several other tactics such as the use of exclusive contracts, backward integration up the supply chain, and so on (Porter 1985), all of which act to prevent, or at least delay, competitor attempts at replication.

Lieberman and Montgomery (1988) discussed the way in which the switching costs that buyers experience when resourcing may generate advantages for suppliers. This, however, is only part of the picture. The effect of those costs on a first-moving buyer's *competitors* may be to their disadvantage. Professional buyers may be reluctant or slow to resource for a variety of reasons ranging from corruption, through idleness, to the perception that the search costs of change may be excessive. This is particularly likely to be true of staff in SMEs who tend to have poorly developed purchasing skills and limited resources. Such effects will be enhanced by normal human risk-aversion behavior — buyers may stay with suppliers they know, even if there are other alternative suppliers that are cheaper, capable of being more reliable, or more innovative.

Dierickx and Cool described another asset-based source of functional heterogeneity and SCA as follows:

Sustainability will be enhanced to the extent that adding increments to an existing asset stock is facilitated by possessing high levels of that stock ...

For example, firms who already have an important stock of R&D know-how are often in a better position to make further breakthroughs and add to their existing stock of knowledge than firms who have low initial levels of know-how (Dierickx and Cool 1989).

Benefits arising from such *asset mass efficiencies* in the purchasing field may derive from purchasing learning processes of the type described earlier. Thus, purchasing functions with well-developed sourcing skills may be in a better position to make further breakthroughs in terms of discovering new suppliers than competitors with inferior skills. Moreover, large-volume purchases tend to be accompanied by increases in potential purchasing power, and thus competitive advantage. Advantage may also be gained by bundling purchases of different products or services together and thus maximizing the buyer's power with respect to the relevant supplier. Consultants have not been urging their purchasing clients to "rationalize their supply base" for the last 20 years simply because they like the sound of the phrase. Finally, benefits may be gained through the exploitation of efficiencies achievable in the operations of a purchasing function's suppliers — what might be called *derived asset mass efficiencies*. In this case, functions with access to suppliers

with, for instance, exceptional new product development capabilities, rather than merely an ability to copy other suppliers, may be in a better position to reap the benefits of any further developments offered by such suppliers in the future.

It should be apparent that the first condition of *functional homogeneity* will be routinely broken in factor markets, and that this is one route for purchasing activities to become a source of sustainable competitive advantage.

Perfect Competitor Information

Organizations may be able to protect a competitive advantage if they can prevent their competitors from becoming aware of its existence. The phenomenon has been labeled "causal ambiguity," and Rumelt, alluding to the model of perfect competition and the neoclassical treatment of organizations as production functions,¹⁰ described it thus:

Uncertainty in the creation of new production functions is most likely to come about because there is ambiguity as to what the factors of production actually are and as to how they interact ... if the precise reasons for success or failure [of an organization] cannot be determined, even after the event has occurred, there is causal ambiguity, and it is impossible to produce an unambiguous list of the factors of production, much less measure their marginal contributions (Rumelt 1984).

Causal ambiguity occurs in the purchasing arena when competitors are either unable to determine if an organization has achieved a competitive advantage as a result of some purchasing activity, or know that such an advantage exists but are unable to determine how it was achieved. At this point, the discussion may be facilitated by the application of a term developed in the information technology (IT) field to that of strategy. Thus, if an IT system is changed and users of the system are unaware that anything has occurred, the modification is described as "user-transparent." Hence, one might say that in strategy terms, the more *transparent* an organization's competitive advantage, the more difficulty competitors have in detecting the change, and the slower and less efficient their competitive pursuit and mimicry is likely to be. In practice, the quality of information that competitors possess concerning any *purchasing-generated* advantage varies widely. At one extreme, competitors may be aware that an organization has a competitive advantage; know that it comes from, for instance, a cost advantage generated by the development of a new, low-cost supplier; and also know the identity of the supplier

¹⁰The production function is a purely technical relation which connects factor inputs and outputs. It describes the laws of proportion, that is the transformation of factor inputs into products (outputs) at any particular time period. The production function represents the technology of a firm, of an industry or of the economy as a whole" (Koutsyiannis 1975, p. 67).

and how to contact and deal with that supplier. In such circumstances, one might say that the advantage is *totally competitor opaque* and the competition possesses perfect intelligence. At the other extreme, competitors may be completely unaware that an organization has obtained competitive advantage through purchasing activities. This might be described as being *totally competitor transparent*. In-between these extremes, there will be a variety of positions including that of competitors knowing that an organization has an advantage, but being unable to determine if it is a result of reduced purchasing costs or some other kind of efficiency in, for example, in-house processes, or even if it is simply a result of a cut in the firm's profit margins. Similarly, competitors may know that an organization has a purchasing advantage from a new supplier, but may be unable to apply what might be called reverse sourcing¹¹ to discover who that supplier is, or may be unable to find an alternative supplier capable of imitating the advantage in a cost-effective manner. This last observation suggests what might be a powerful source of competitive advantage. White and Hanmer-Lloyd (1999) recommended a deliberate strategy of seeking unknown suppliers in their discussion of the development of localized, product- or industry-related factor "serving markets" in which buyers may know not only the suppliers that usually supply the materials, components, and services required in the provision of the final sales product, but also who their main (or local) competitors are. White and Hanmer-Lloyd focused on the restrictions in such markets as follows:

Evaluating the products offered by existing, or incumbent, suppliers to an input market, although identifying the most expedient supplier, may not identify the most opportune provider of the required **competences**. Indeed, the most opportune provider, to a particular input market, may either have no interest in supplying that market or, ironically, may not be aware of its opportunity (Welch and Nayack 1992) (White and Hanmer-Lloyd 1999).

Applying the same idea to the current discussion, it is apparent that buyers who actively seek sources of supply outside the serving market may generate a strategic advantage that is more competitor transparent and thus more resistant to reverse sourcing.

Perfect Purchased Resource Mobility

There are a variety of reasons for questioning the existence of perfect mobility of purchased resources in real markets. Some assets require a prolonged development

¹¹Reverse engineering refers to the process of working out how a product is manufactured. Reverse sourcing, by analogy, refers to the process of working out the source of supply of a purchased product or service. This may be achieved with tangible goods by, for example, taking them apart to determine where the component parts were sourced; looking for brand names or part numbers incorporating company logos or product names, distinctive supplier-specific materials, and so on.

period, and competitors attempting to rush for purposes of imitation may find the results disappointing and costly. Although such *time compression diseconomies* may not generate *permanent* advantage for first-movers, they will, at the very least, give them a transient edge.

Asset specificity has been repeatedly identified as a potential source of advantage precisely through its effects on limiting resource availability to competitors. For example:

Transactors (not just individual firms) who make specialized investments may realize an advantage over competing transactors who forego specialized investments. Thus interfirm specialization may be a source of relational quasi rents and competitive advantage (Dyer 1996).

Much of the discussion of asset specificity is couched in terms of highly tangible assets such as company-specific tooling and so on. However, the concept is relevant beyond the tangible realm. Indeed, it is possible to argue that like buying and selling *power*, asset specificity is ubiquitous, and that as soon as you move away from proprietary consumables, much of the purchasing function's time and effort is devoted to the generation of *intangible* asset specificity. This takes the form of persuading suppliers to modify their sales specification (price, delivery, quality, payment terms, etc.) to more closely match the buyer's purchase specification, preferably *without* charging the buyer for any costs incurred in the process of modification.¹² One might argue, therefore, that one of the purchasing function's primary roles is to obtain the maximum amount of buyer specificity in purchased assets at the minimum cost. Looked at from this perspective, asset specificity becomes an everyday fact of purchasing life rather than some rare phenomenon. More importantly, it is a powerful source of competitive advantage, particularly if it accompanies a process of asset preemption (see above).

Universal Imitation Attractiveness

Two main factors may make the act of imitating a competitor's purchasing advantage appear unattractive:

- Insufficient financial incentives
- Excessive imitation costs

The former is likely to be particularly true for organizations trading in restricted markets where total sales are limited and the investment in time, effort, and resources needed to match a competitor's advantage would not be justified by the likely returns from that investment. It is possible that this rather obvious possibility has not occurred to the main RBP authors because they, like so many others across the management field, tend to focus on phenomena of interest primarily to very large organizations. Large organizations tend to operate in very large markets where there is a high probability that there will be a sales incentive to match the actions of competitors. However, the

¹²See Ramsay (1991).

overwhelming majority of organizations are small, and there is no guarantee that the revenue attainable in the sales markets they have access to will always be so attractive.

The latter factor involves the deterrent effect of excessive imitation costs. Supply "imitation" in the purchasing sphere involves a combination of suppliers and their output. Thus, your competitors may imitate your behavior by locating the supplier(s) you use and obtaining identical or equivalent output from them, or they may identify alternative suppliers capable of supplying equivalent output. Both routes have associated costs arising from imperfect purchased resource mobility. Identifying identical or alternative sources may generate significant *search costs*, and obtaining identical or alternative supplies may involve heavy *development costs*. Thus, competitors may not have the necessary resources to imitate a competitor's purchasing-based advantage. Purchasing activities in SMEs, for example, may be carried out by staff who are given the task in addition to their "main" responsibilities for marketing, engineering, and the like. They may have neither the expertise nor the time to match a purchasing-based advantage. Successful imitation may demand an investment in staff training or recruitment that makes the search process deeply unattractive. Alternatively, asset specificity may make imitation costs prohibitive. Even the act of obtaining identical supplies from a willing supplier may have deterrent *development costs* if, for example, the supplier is producing at full capacity and has to invest in order to expand output. Overall, the deciding factor behind an organization's decision whether or not to imitate a competitor's purchasing-based advantage will be the balance between total imitation costs and the expected revenue generated by successful imitation. It would be unreasonable to assume that this balance will always be positive.

CONCLUSIONS

The preceding discussion indicates that the four conditions necessary for preventing the generation of SCA from purchasing activities are *routinely* breached in real markets. Hence, the RBP suggestion that SCA cannot be obtained through purchasing activities is fundamentally flawed. The four conditions — functional homogeneity, perfect competitor information, perfect purchased resource mobility, and universal imitation attractiveness — bear a close family resemblance to the eight assumptions used to define perfect competition in the neoclassical theory of market structure.¹³

Perfect competitor information is, for example, a subset of perfect knowledge. Functional homogeneity would develop from a combination of perfect knowledge and perfect mobility of factors of production. Perfect purchased resource mobility is a subset of perfect factor mobility, and uniform imitation attractiveness would

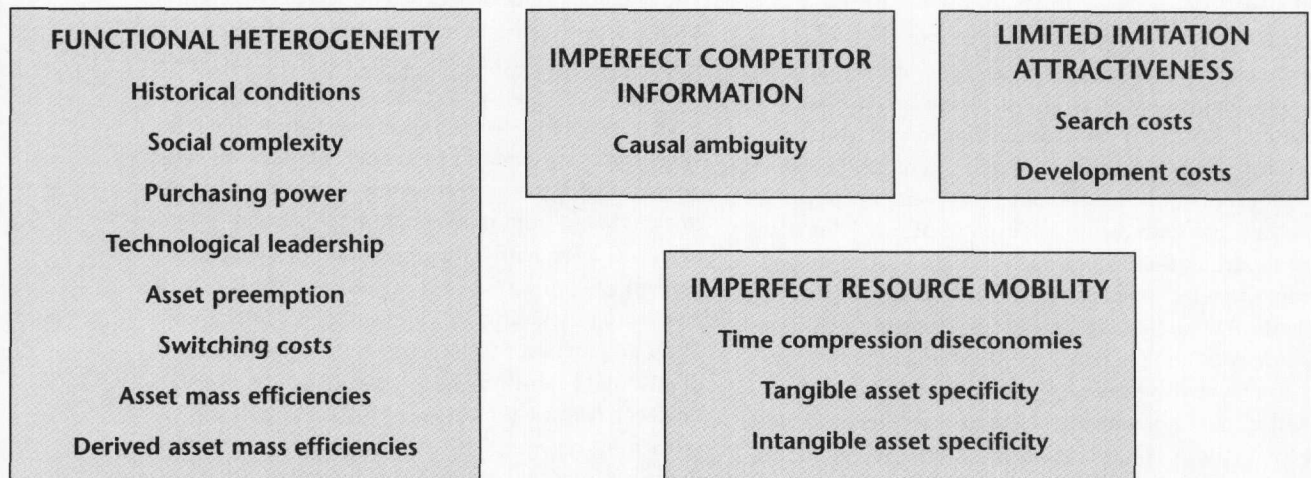
result from perfect factor mobility and the very large potential market implied by perfect competition's assumption of large numbers of buyers and sellers. The resemblance between the two sets of conditions or assumptions is perhaps not surprising; a perfectly competitive market might be described as the most "freely trading" and "open" market imaginable. Although it is never explicitly stated, it appears likely that RBP references to "open" and "freely traded" markets are based on a knowledge of perfect competition. However, all markets suffer from market failure to a greater or lesser degree. Consequently, the four conditions necessary to prevent the protection of competitive advantage generated from purchasing activities will never fully apply. Thus, *all* purchased factors may be a potential source of advantage. This conclusion should not be overstated, however, because the degree of market failure and restrictions on competitive imitation produced when the conditions *are* breached may be slight and/or short-lived. Nevertheless, this is precisely the opposite conclusion to that reached by the reasoning of Dierickx, Cool, Conner, et al. The RBP analysis is still logically correct — in perfectly competitive markets, no sustainable competitive advantage can be generated from purchased assets — but the significance of this "insight" for organizations is revealed to be extremely limited. Hence, the conclusion here that there *is* a healthy prospect of generating competitive advantage from purchasing activities (see Figure 3).

Finally, it is suggested that the vocabulary surrounding SCA in the RBP literature provides an extremely useful medium for clarifying thinking about the relationship between purchasing and strategic advantage. Practitioners who wish to enhance the function's strategic profile may find the language and concepts useful, particularly if they decide to direct some of the function's attention toward the goal of generating SCA rather than simply trying to maximize the efficiency of its operations and minimize the costs it incurs. The discussion of potential purchasing sources of SCA offered above may also suggest ways in which such a change of direction might be achieved.

¹³Koutsoyiannis (1975, pp. 154-5) provides an admirable summary.

Figure 3

SOURCES OF PURCHASING-BASED SUSTAINABLE COMPETITIVE ADVANTAGE



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