Resource Endowment and Development of Competences

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ABSTRACT: This study explores how firms endowed with marginal resources develop their competences as contrasted with firms endowed with superior resources. Field studies in four marketing research firms, two local firms and two subsidiaries of multinational enterprises (MNEs), are combined with analysis of existing theory to develop findings of the study. Comparisons of local research firms and MNE subsidiaries reveal a link between resource endowment and development of competences. Firms with superior resources (i.e. MNE subsidiaries) tend to focus on the development of combinative capabilities in order to exploit internal resources; whereas, firms with marginal resources (i.e. local research firms) seek to enhance customer-specific absorptive capacities and generic organizational absorptive capacities in order to leverage external resources and extend customer base.

Key Words: resource-based view of the firm (RBV), dynamic capability, competitive advantage, organizational learning

The resource-based view (RBV) is one of the widely acknowledged theoretical perspectives in the field of strategic management (Powell 2001; Priem and Butler 2001; Newbert 2007). The traditional resource-based work has a basic proposition that ‘firms with superior resources earn rent’ while ‘firms with marginal resources can only expect to breakeven’ (Peteraf 1993). Some researchers have challenged about the static nature of the traditional RBV (Priem and Butler 2001). It is now established that possession of superior resources is not sufficient. Firms must also ‘demonstrate the ability to alter resources in such a way that their full potential is realized’ (Newbert 2007). However, although some theoretical work has discussed about the development of capabilities or competences (i.e. Fiol 1991; Reed and DeFillippi 1990; Kogut and Zander 1992), the underlying assumption is that firms has a solid resource base from which firms can exploit, alter, or recombine in order to earn rents. The unsolved question is whether firms with marginal resources can still earn rents.
The purpose of this paper is to explore how firms endowed with marginal resources develop their competences as contrasted with firms endowed with superior resources. The setting is the marketing research service industry in Taiwan. The industry is an attractive one for this study because of the significant knowledge base difference between two types of firms, local marketing research firms versus subsidiaries of marketing research MNEs. Both types of firms emerged in the Taiwan market in late 1980s and occupied stable shares ever since. However, local marketing research firms are not endowed with a large knowledge and expert base as subsidiaries of marketing research MNEs. As one entrepreneur of the local marketing research firm mentioned, “We know we do not have the brand name and global-developed solutions as our MNE competitors…. We have to find our own way.”

The major results from this study are theoretical insights concerning the application of ‘absorptive capacities’ and that of ‘combinative capabilities’ (Cohen and Levinthal 1990; Kogut and Zander 1992). The findings reveal that firms endowed with superior resources tend to develop combinative capabilities in order to exploit internal existing resources; whereas, firms endowed with marginal resources seek to enhance customer-specific absorptive capacities and generic organizational absorptive capacities in order to leverage external resources and extend customer base.
METHOD

Research Design

The research design is multiple-case, in which ‘the cases are treated as a series of independent experiments that confirm or disconfirm emerging conceptual insights.’ (Brown and Eisenhardt 1997) I conducted interviews with four marketing research firms that provide full scope customized research services. Like other professional services, such as law and architecture, the marketing research service relies on an ‘intensive technology’ (Thompson 1967) to solve a customer’s problem (Stabell and Fjeldstad 1998). In addition to the general characteristics of professional services, such as knowledge-intensive and lack of objective measurement, market research services also have distinctive characteristics. First, the marketing research service is one type of business process outsourcing, in which the contribution is related to the degree of integration with customer’s marketing programs. Second, the demand of the research services from the same customer can be continuous. The stronger the tie with the customer, the more chances the marketing research firm would learn customer’s ‘real’ marketing issues and provides useful recommendations. Third, due to the dynamic nature of customer’s marketing activities, the core capability of marketing research services is the ‘dynamic capability’ (Teece, Pisano, and Shuen 1997; Eisenhardt and Martin 2000).

Among the four marketing research firms interviewed, two are local providers, founded by local entrepreneurs, and two are subsidiaries of multinational enterprises. I intended to contrast two types of firms, local firms versus subsidiaries of MNEs, because they are different in their resource
endowment (Barney 1991) while both types have existed in the Taiwan market for more than 15 years.

Appendix 1 briefly describes the four cases in this study.

**Data Collection**

I conducted interviews with entrepreneurs/research directors of local firms and research directors of the customized research division in MNE subsidiaries. Interviews typically lasted 90 minutes to 2 hours, and were tape-recorded. The tapes were transcribed verbatim for further analysis.

**Data Analysis**

The extended case method (Buraway 1991) was used as a guide to data analysis. The method ‘uses empirical data gathered through case study to reconceptualize and extend theory’ (Danneels 2002). As the developer of this method, Buraway (1991:26) noted:

*The generation of theory from the ground up was perhaps imperative at the beginning of the sociological enterprise, but with the proliferation of theories reconstruction becomes more urgent. Rather than always starting from scratch and developing new theories, we should try to consolidate and develop what we have already produced.*

The extended case method was used to integrate and extend existing theory. During the process, I examined the relevant literature, collected empirical data and thoroughly read interview transcripts to find patterns to elaborate the theoretical meaning and extend theoretical coverage.
FINDINGS - RESOURCE ENDOWMENT AND DEVELOPMENT OF FIRM COMPETENCES

The research question of this study is how firms endowed with marginal resources develop their competences as contrasted to firms with superior resources. What emerged from the interplay of literature and analysis of the data were insights that linked marginal resource endowment with the development of absorptive capacities, and superior resource endowment with the development of combinative capabilities.

Resource Endowment

Firms are endowed with heterogeneous resources and capabilities (Penrose 1959; Barney 1991; Peteraf 1993). In this study, local marketing research firms are endowed with marginal resources; that is, capabilities related to the entrepreneur, such as entrepreneur’s background and experience in the marketing related field and entrepreneur’s local customer network. On the other hand, the MNE subsidiaries are gifted with superior resources. The MNE subsidiaries are gifted with premium resources from the parent firm, including the brand name, a collection of experts at different countries, R&D-developed models, and global electronic databases. It is worth of note that MNE subsidiaries first entered the market with emphasis on global resources and then developed local network during the stage of expansion.

Firm Competences

Grant (1991) defined competence as the capacity for a set of individual resources to perform some tasks or activities. In this study, a marketing research firm’s competence refers to its capacity to
organize internal and external resources to provide solutions or recommendations to customer’s marketing issues. For marketing research firms, the competence is embedded in the project team or project team leader, who communicates with customers to understand customer’s issues and provides solutions or recommendations to customers. The competence embedded in the project team can also be regarded as the skill repertoire of the project team (Nelsen and Winter 1982).

**Resource Endowment and Development of Firm Competences**

What emerged from this study were insights that linked resource endowment with the development of different competences.

In this study, local marketing research firms, endowed with marginal resources, focus on developing customer-specific absorptive capacities and transforming to generic organizational absorptive capacities to leverage learning from various customers (Cohen and Levinthal 1990; Peteraf 1993). To develop customer-specific absorptive capacities, local marketing research firms use customer relationship-enhancement routines, such as free post-project consultation, to learn from customers. As one local firm’s entrepreneur mentioned, “We do not have enough people and resources to develop models, nor do we have an international brand name to sell models. This is the segment we have to give up. However, we have to develop our niche; that is, to provide more in-depth services. For example, we offer free consultation based on our observations of the market and judgment of the data. … We learn from our customers. The more we learn from our customers about the market and their marketing operations, the stronger our consulting capabilities will be.”
The concept of customer-specific absorptive capacity is similar to that of ‘partner-specific absorptive capacity’ proposed by Dyer and Singh (1998). Customer-specific absorptive capacity refers to the idea that a firm develops the ability to recognize and assimilate valuable knowledge and information from a particular customer.

In addition to the development of customer-specific absorptive capacity, local marketing research firms also utilize inter-team knowledge sharing routines to transform customer-specific absorptive capacities to generic organizational absorptive capacities, defined as ‘the ability of a firm to recognize the value of new, external information, assimilate it and apply it to commercial ends’ (Cohen and Levinthal 1990: 128). Inter-team knowledge sharing routines employed by local marketing research firms include informal experience sharing and formal inter-team experience sharing routines. In one of the local firms, formal inter-team experience sharing sessions are structured to stimulate experience sharing. As the entrepreneur of one local firm illustrated, “Because we are a small company, any of our project team leaders can easily summon a meeting to get input from other researchers regarding a report or a presentation. By this way, the report or the presentation would be enriched. Most important of all, people get insight from other researcher’s experience and learn from each other.” By the experience sharing routine, customer-specific absorptive capacities embedded in different project teams or team leaders are transformed into generic organizational absorptive capacities. The generic organizational absorptive capability helps local marketing research firms to further serve a variety of potential customers. Figure 1 depicts the development of competences in local marketing research
On the other hand, subsidiaries of marketing research MNEs, endowed with superior resources, focus on developing subsidiary-specific combinative capabilities to exploit global competences (Kogut and Zander 1992; Peteraf 1993; Rugman and Verbeke 2001). Kogut and Zander (1992) introduced ‘combinative capabilities’ as capabilities to ‘synthesize and apply current and acquired knowledge’. As the research director of one MNE subsidiary stated, “Our advantage is that we have various solutions provided by our global R&D. We can always integrate different solutions to make a new solution to meet our customer’s needs.” According to the research director, the MNE subsidiary has the incentive as well as the pressure to exploit global solutions because “R&D is expensive, and each subsidiary requiring the solution has to share the R&D cost. We pay royalty fee for the solutions we require.” Although MNE subsidiaries also develop customer relationship through customer communication routines, the routines are used to discover customer’s potential needs. After identifying potential needs, MNE subsidiaries seek to exploit their global knowledge base via intra-organizational knowledge creating and sharing routines. MNE subsidiaries develop subsidiary-specific combinative capabilities by the accumulation of experiences in recombining and reapplying the global knowledge to meet local needs (Kogut and Zander 1992; Rugman and Verbeke 2001). Besides, MNE subsidiaries submit issue lists of unsolved local needs to the global R&D division. The R&D division evaluates different issues across different countries and develops new
technology to capture future needs, which is another type of combinative capabilities, called the R&D combinative capabilities in this paper (Kogut and Zander 1992). The development of subsidiary-specific combinative capabilities is more like the development of ‘know-how’ while the development of R&D combinative capabilities can be regarded as the development of ‘know-why’ (Kogut and Zander 1992). Figure 2 depicts the development of firm competences in subsidiaries of marketing research MNEs.

CONCLUSIONS AND IMPLICATIONS

This study explores the development of competences in the context of professional services. The cases of the marketing research firms reveal that although firms are endowed with heterogeneous resources, they focus on the development of diverse competences, such as absorptive capacities and combinative capabilities, to survive and prosper (Cohen and Levinthal 1990; Kogut and Zander 1992; Collis 1994). Firms endowed with superior resources, such as subsidiaries of marketing research MNEs, focus on developing subsidiary-specific combinative capabilities to exploit and create new combinations of existing resources. Firms endowed with marginal resources, such as local marketing research firms, focus on building up customer-specific absorptive capacities and generic organizational absorptive capacities to leverage external resources and extend customer base.

Research Implications

This study ties in closely to the arising dynamic resource-based view. In this domain, the
evolution of resources and capabilities is discussed (Helfat 2000; Helfat and Peteraf 2003). This study further explicates how the evolution of capabilities is shaped on the basis of heterogeneous resource endowment.

**Managerial Implications**

Although it is well recognized that firms are endowed with different levels of resources and capabilities, managers can help organizations develop appropriate competences to supplement insufficient resources or to fully utilize superior resources (Collis 1994; Danneels 2002). Another important issue in this study involves how various competences can be developed. For example, customer relationship-routines can be used to build customer-specific absorptive capacities and inter-team knowledge sharing routines can be employed to transform customer-specific absorptive capacities to general organizational absorptive capacities.

**LIMITATIONS AND FUTURE RESEARCH**

The findings in this study are based on in-depth studies of four marketing research firms. Obviously, the findings may not be generalizable to all marketing research firms. The research firms could have idiosyncratic characteristics. For example, traits of entrepreneurs in local firms may have significant impact on the learning culture and the development of competences. In addition, as the nature of qualitative studies, findings of this study involve interpretation of the data. Other researchers with different orientations might interpret the data differently. For example, the exploration-exploitation framework in organizational learning may be adopted to explain how local
research firms ‘devote enough energy to exploration’ at the organization level while maintaining
exploitation at individual level (March 1991; Levinthal and March 1993). On the other hand, research
MNEs ‘engage in sufficient exploitation’ at the subsidiary level and invest in ‘exploration’ at the
global/R&D level (March 1991; Levinthal and March 1993). From this perspective, the study may tie
resource-based view with organization learning by pointing out the linkage between resource
endowment and the ‘balance’ of exploration and exploitation within organizations (March 1991;
Levinthal and March 1993; He and Wong 2004). In addition, the learning routines may also be
illuminated from the data (Eisenhardt and Martin 2000).

However, the findings presented still have a conceptual appeal in terms of the link between
resource endowment and development of competences. Future research could extend the framework
to other professional service providers, such as advertising firms, business consulting firms, etc..
Future research could also examine the organizational mechanisms and structures that facilitate the
development of certain type of competences.
REFERENCES


Figure 1: Development of Firm Competences in Local Marketing Research Firms

Customer relationship-enhancement routines

Project team’s customer-specific absorptive capacity

Inter-team knowledge sharing routines

Organizational absorptive capacity

Note: The figure is a simplified version. In reality, each project team may serve more than one customer and there may be more than two project teams in a local marketing research firm.

Figure 2: Development of Firm Competences in subsidiaries of Marketing Research MNEs

Customer communication routines

Subsidiary-specific combinative capabilities (know-how) in a local project team = Subsidiary-specific combinative capabilities (know-how) in other local project team or other project team in other countries

Intra-organization knowledge creation and sharing routines

R&D team combinative capabilities (know-why)

Note: The figure is a simplified version. In reality, each project team may serve more than one customer and there may be more than two project teams in a marketing research MNE subsidiary.
## APPENDIX

### Appendix 1: Research firms*

<table>
<thead>
<tr>
<th>Firm Code</th>
<th>Local marketing research firms</th>
<th>Subsidiaries in marketing research MNEs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Age</td>
<td>V</td>
</tr>
<tr>
<td>Size: # of full-time employees</td>
<td>20</td>
<td>50</td>
</tr>
<tr>
<td>Customer Industry**</td>
<td>35</td>
<td>50</td>
</tr>
<tr>
<td>Research services (customized research)</td>
<td>Fast-moving consumer goods, automobile, financial services, health care, high-tech, food and restaurant, telecom, retailing, entertainment, etc.</td>
<td>Fast-moving consumer goods, automobile, retailing, health care, high-tech, media, chemical industry, financial services, government, etc.</td>
</tr>
<tr>
<td>Consumption trend, Product test, New product test, Advertising test, Shopper study, Public research, etc.</td>
<td>Consumption trend, Product test, Advertising test, Polls, etc.</td>
<td>Brand health management, Customer loyalty, New product development, Consumer needs and motives, Marketing mix management, etc.</td>
</tr>
</tbody>
</table>

*Figures are approximate to protect confidentiality.

** Reports in company brochures or websites