# FROM STRATEGY TO SUSTAINABLE COMPETITIVE ADVANTAGE: RESOURCE MANAGEMENT AS THE MISSING LINK

*R. ZACHARY FINNEY, North Georgia College and State University*
*NOEL CAMPBELL, North Georgia College and State University*
*ROBERT ORWIG, North Georgia College and State University*

*Scholars hold that firm strategy is a key determinant of SCA (Porter, 1985). But what steps allow managers to connect strategy and SCA? We suggest that strategists operationalize firm strategy through resource management decisions. Correspondingly, we construct a series of theoretical models to link a) strategy, b) resource management, and c) SCA. The first set of models "matches" Porter's (1985) firm strategies with Morgan's (1999) resource management activities. In the second set of models, we propose that those firms matching strategies and resource management activities will attain superior financial performance.*

## INTRODUCTION

> *This proverb flashes through his head/The many fail, the one succeeds* - Alfred Lord Tennyson, *The Day Dream*, 1842.

Firm strategy provides an overall direction for managers making important decisions. There are two broad strategic choices. Under a *differentiation strategy*, the manager searches for something a) that no other business does and b) that customers value. Under a *low cost strategy*, a firm has lower expenses than do all of its competitors (Porter 1985). The overarching goal of these strategies is to provide a Sustainable Competitive Advantage (SCA) - an *enduring* superiority relative to other businesses (Porter 1985). While empirical research confirms that SCA exists, such advantages are also rare (Wiggins and Ruefli 2002).

Porter's ideas regarding the low cost-differentiation strategies and SCA have spurred much discussion. Formulating a broad strategy is certainly a key to SCA. However, one wonders what activities come between selecting a strategy and attaining SCA. Surely, if the strategic choice provides the overarching direction, there must be some set of tactics managers may use to operationalize the strategy.

**The Marketing Management Journal**
**Volume 14, Issue 1, pages 71-81**


Indeed, scholars have begun to make the same point: "The message is clear: to understand how a competitive advantage is created and sustained we must understand the intermediate stage of positional advantages. Otherwise, the exercise is devoid of diagnostic value" (Day and Wensley 1988, p. 7). Unless we better understand the tactics that support firm strategy, it will be difficult to bridge the strategy-SCA gap.

> *Resource-based theory provides a potential answer to this dilemma.*

Resources are "...the building blocks of successful product market strategies" (Mehra 1996, p. 309). For the strategist, any potentially useful input constitutes a resource; therefore, resources may be tangible (machinery, buildings, etc.) or intangible (reputation, intellectual property rights, etc.).

Scholars adopting the resource-based view posit that resource management is a key determinant of firm performance (Dierickx and Cool 1989). But what, precisely, is resource management? Morgan (1999) conceptualizes resource management as a set of four sequential activities: a) efficient acquisition, b) bundling/combining, c) positioning, and d) maintenance/protection. During efficient acquisition, strategists attain resources at "bargain" prices. Next, bundling/combining entails "integrating" individual resources into attractive products. Third, positioning involves creating a unique image for a firm's offerings. Last, maintenance/protection means a) preserving and updating resource stocks while b) keeping those resources from competitors.

Using resource-based theory for support, we posit that resource management provides a set of tactics to operationalize firm strategy and bridge the strategy-SCA gap.

**TABLE 1**
**Resource Management:**
**The Link Between Strategy & SCA**

| Step | Task |
|---|---|
| Step One | Select Strategy |
| Step Two | Emphasize Appropriate Resource Management Tasks |
| Outcome | Sustainable Competitive Advantage |

We develop our argument as follows: First, we synthesize resource-based scholarship from its inception in the early 1980s. Second, we develop six propositions that help answer a pair of critical questions. One, *"What is the relationship between firm strategy and resource management?"* To clarify this link, we construct a theoretical framework connecting Porter's (1985) firm strategies (differentiation and low cost) to Morgan's (1999) four resource management activities. Two, we extend the framework to examine SCA; the question then becomes *"What are the links between firm strategy, resource management, and financial performance?"* Finally, in the third section, we discuss the paper's contribution and suggest avenues for future research.

## RESOURCES: FOUNDATION OF SUSTAINABLE COMPETITIVE ADVANTAGE

In February 1987 United Airlines (UAL) Chairman and CEO Richard Ferris announced that UAL would change its name to Allegis Corporation. Ferris made the change after UAL acquired Hertz rental cars, as well as Hilton and Westin Hotels (Boyd 2003). What became of Allegis? Wall Street analysts believed that the properties would be difficult for one firm to manage and United shares plummeted approximately $3 the day Ferris announced the plan (Boyd 2003). Repercussions were swift: by December 1987, Allegis' Board had fired Ferris, divested Hertz, Hilton, and Westin, and taken back the UAL name.

Ferris believed that the solid position of the hotel and rental car properties could boost Allegis' value. Clearly, this was not the case. The Allegis debacle, then, illustrates that valuable resources do not necessarily confer SCA – or even short-term profits. "Thus, simply being endowed with or developing strategic resources is not enough" (Mehra 1996, p. 318).

Strategic failures such as Allegis helped scholars realize that their understanding of SCA was lacking. Consequently, the collective focus in the strategy literature began to shift. Specifically, scholars adopting the resource-based view postulated that resource management *activities* were fundamental to explanations of firm success (Wernerfelt 1984).

The "best" strategists, therefore, excel at building firm resource stocks into product offerings that match customer needs. However, superior strategies are perishable. For the strategist, then, the pursuit of SCA brings to mind the old saw that "you can't stand still on a moving train" - today's best strategy may be obsolete tomorrow.

Given the shifting foundations of SCA, an executive's ability to *manage* resources is of paramount importance. Unfortunately, many scholars ignore this issue. "Most researchers do not address the dynamic aspects of bundling resources and their implication to RBV" (the resource-based view) (Black and Boal 1994, p. 133).

Clearly, the dynamic links between firm strategy, resource management, and SCA are of great importance to strategists. Scholars need to explicate the specific *activities* that lead to organizational success (and failure) (Dougherty 1996). Therefore, Morgan's (1999) four-step model of the resource management process provides an important foundation for strategic research. The following paragraphs explain Morgan's conceptualization.

**Resource Management – Step One: Efficient Acquisition**

Efficient acquisition is the first step in effective resource management (Morgan 1999). "Efficient acquisition" means that a firm obtains its resources at "bargain" prices (Hunt and Morgan 1995, 1996). If a resource's price exceeds its value (meaning that the price is "inefficient" in the current conceptualization), the resource cannot provide profits in excess of the market rate of return.

Wal-Mart is perhaps the most prominent example of a business with a successful emphasis on efficient acquisition. Among other cost-reducing activities, Wal-Mart:

- eliminates middlemen by purchasing from manufacturers,
- combines operations by negotiating one price for its stores worldwide,
- and develops its own distribution centers and trucking fleet. (Hartley 2001).

All indications are that Wal-Mart also meets the second criterion for efficient acquisition: the firm derives great benefits from its thrifty operations, regularly posting 20 percent annual increases in sales (Hartley 2001).

Managers are likely to find that consistently attaining resources at bargain prices is difficult. In a market characterized by perfect information, "what will ensue is fierce competition… to the point that the anticipated returns are, in essence, competed away" (Petuaf, 1993, p. 185). Therefore, if a resource is to provide the basis for SCA, perfect information cannot exist concerning that particular resource's potential value.

Consequently, strategists will find that where assessing resource value is most difficult, there is also the most potential for efficient acquisition and SCA. Likewise, Powell (1995) asserts that intangible (or "tacit") resources are the most likely determinants of SCA.

The difficulties inherent in projecting the revenues and expenses associated with an acquisition often lead to strategic errors. For instance, Quaker overestimated the potential benefits when it bought Snapple for $1.6 billion in 1994; management realized too late that Snapple simply did not appeal to the mass market. Admitting defeat, Quaker sold Snapple in 1997 for just $300 million (Aaker 2001).

Efficient acquisition means that firms must procure their resources at "bargain" prices. However, it is difficult to determine what constitutes an efficient price; projections of the money inflows and outflows associated with an acquisition are likely to be approximations – at best.

**Resource Management – Step Two: Bundling/Combining**

Efficient acquisition alone is insufficient to convey SCA. Many firms possess valuable resources, but fail to introduce successful products. After acquisition, managers must "fuse" disparate resources into attractive product offerings; this process comprises Morgan's (1999) second resource management activity: bundling and combining resources.

"The process of combining resources is central to explanations of firm success and failure" (Morgan 1999). Fusing inputs yields a set of "higher order resources," and such combinations are much more difficult for competitors to copy than are products based on a single resource. Therefore, higher order resources are more likely to produce SCA (Morgan 1999).

The Allegis case illustrates that owning quality resources is not enough. And Allegis is hardly unique. For instance, Pettus (2001) found high failure rates after deregulation in the trucking industry; company strategists were often unable to adapt their resources to the realities of the deregulated marketplace.

Indeed, the graveyards of strategy are filled with the corpses of unmanageable organizations. For instance, firms making purchases in the mergers and acquisitions (M and A) boom have often found it impossible to derive value from their new assets. Subsequent years have seen M and A participants a) jettison ill-fitting business units (RJR-Nabisco's sale of Del Monte), b) file for reorganization (Federated Department Stores), or c) even cease to exist altogether (Texas Air) (Bernstein 1999; Makamson 2003).

Why are resources so difficult to integrate? Bundling and combining requires constant attention because "resources implicitly have different economic life cycles, they are continually bundled, unbundled, and rebundled" (Black and Boal 1994, p. 146). Instead of vigilant attention, most managers allow "autonomous strategic behavior" at different levels within their organizations (Burgelman 1983). Subsequent efforts to bundle and combine knowledge from these autonomous activities are strictly ad hoc; indeed, *executives allow the resource management process, the lifeblood of their organizations, to proceed in a pell-mell fashion*. Only after assembling a collection of ill-fitting pieces, does anyone give thought to working "the strategic puzzle" (Webster 1992).

How may executives improve bundling and combining? Since value flows from bundling multiple resources, managers "have to look at resources that combine well with what they already have" (Wernerfelt 1984, p. 175). Similarly, "resources and products are but two sides of the same coin" (Wernerfelt 1984, p. 171); by failing to connect the two, managers often doom their organizations with dissimilar resources that are difficult to combine into valuable products. Restated, resource investments alone do not predict SCA; managers must "leverage" their assets in order to prosper (Montealegre 2002).

Procter and Gamble (P and G) is an example of a firm that consistently bundles and combines resources well. Over the years, P and G has consistently based its strategy on integrating the same two resources: a) research and development (R and D) and b) promotion.

Research and Development has helped make P and G a "pioneer" in a number of product classes: a) synthetic detergent (Tide in 1946), b) disposable diapers (Pampers in 1961), and c) shampoo-conditioner (Pert Plus in 1986) (Procter and Gamble 2003). While innovating through R and D, P and G spends over $2 billion annually on promotions. So pervasive is their message that in a 1983 survey, 93 percent of respondents could identify P and G's Mr. Clean; only 56 percent could name George Bush, who was then Vice President (Swasy 1993). The impact of P and G's superior resource management is clear: the Company consistently outperforms the Standard and Poors 500 (Procter and Gamble 2003).

In summary, it is insufficient for a firm to possess superior resources; management must also bundle and combine those resources into attractive product offerings. The practical strategist, therefore, will base product development on a compatible set of core competencies.

**Resource Management – Step Three: Positioning**

> *If someone mentions Cadillac, what comes to mind?*

In recent years, General Motors (GM) has watched its premium brand with alarm; sales figures revealed an ominous decline from 350,183 pieces in 1978 to 189,154 in 2000. GM's strategists fear that consumers now see Cadillac as a car exclusively for senior citizens; in fact, the average Cadillac buyer is 62 years old (Irishcar.com 2001). As a result, management has committed $4 billion to change customer perceptions (Irishcar.com 2001). In marketing terms, GM is attempting to alter Cadillac's *positioning*.

A firm may attain resources at good prices and package them together nicely; however, without the proper *positioning* a product is likely to gather dust on store shelves. Positioning, Morgan's third resource management activity, is how customers view the product: "But positioning is not what you do to a product. Positioning is what you do to the mind of a prospect. That is, you position the product in the mind of the prospect" (Ries and Trout 1986, p. 2).

> *While positioning is vital to SCA, several factors complicate the process.*

The boundaries inherent in the traditional firm make positioning more difficult. Webster (1992) notes that positioning is vital at both the Corporate and the Strategic Business Unit (SBU) levels. While management may build impressive positioning strategies for the entire organization, an SBU, or an individual brand, executives often devote little thought to whether all of the individual positioning efforts *coalesce* into an effective set of positioning strategies.

Ries and Trout note that, as a whole, GM's positioning efforts are poor. Indistinct positioning blurs potential differences between various GM makes and models: "What do you know about Chevrolet? About Chevrolet engines, transmissions, and tires? About the seats, upholstery, and steering? Be honest. How many Chevrolet models are you familiar with? And do you know the differences between them? Confusing, isn't it?" (1986, p. 14).

Problems also arise because management fails to connect internal firm competencies with positioning. Dougherty (1996) notes that many strategists grasp the importance of "core competencies" and the need for a "customer orientation." However, "while necessary for innovation, these two sets of knowledge are not sufficient, because in most theories the two sides remain separated, so the capacity for learning is still missing." A firm that produces without thought to customer needs often has to try and position an unwanted product.

As was the case with efficient acquisition and bundling/combining, positioning requires great skill. To position effectively, strategists must understand the consumer's psyche and use that knowledge to create a unique, desirable image.

### Resource Management – Step Four: Maintenance/Protection

In the end, a firm's managers may acquire resources at bargain prices, bundle them into attractive offerings, and position them well for some market - but still fail to attain SCA. Today's optimal strategy may be antiquated tomorrow. Only flux is certain. Changing competitive conditions, therefore, necessitate Morgan's (1999) fourth resource management activity: maintaining and protecting resources.

Given that the foundations underlying SCA often shift, managers cannot allow their firms' strategies and tactics to stagnate. After all, it is difficult to adjust firm resource stocks in the short run; "It takes a consistent pattern of resource flows to accumulate a desired change in strategic asset stocks..." (Dierickx and Cool 1989, p. 1506). Strategists who allow their firms' resources to decay will find themselves at a competitive *dis*advantage.

Dierickx and Cool (1989) provide a vivid metaphor that illustrates the need for resource *maintenance*. The authors hold that resource stocks accumulate in the same manner as water in a tub; while strategists can adjust the flow (rate of increase) of the stocks relatively quickly, they cannot adjust the total water level (cumulative quantity of resource stocks) in the short run. Correspondingly, research reveals that the ability of firms to incorporate radical new technologies into their operations at present depends upon having prepared for such contingencies in the past (Srinivasan, Lilien and Rangaswamy 2002).

In the early 1960s, Gillette learned a difficult lesson about maintaining and protecting resources after developing the stainless steel razor blade. Management chose not to introduce stainless steel because of fears that such an innovation would cannibalize Gillette's market position in carbon steel blades. Instead, a competitor (Wilkinson Sword) pioneered the market for stainless steel blades. Gillette's market share for razor blades subsequently fell from 72 percent to 50 percent (Aaker 2001).

Liebeskind (1996) notes that protection is vital because only proprietary resources convey SCA: "uniqueness that is so central to strategy theory depends critically upon the deployment of protective organizational arrangements by firms" (p. 94).

IBM illustrates what can happen when managers fail to maintain and protect resources. In the early 1980s, IBM's advantage in mainframe computers gave the firm supremacy over the technology industry. However, when entering the personal computer (PC) market, IBM hired two small suppliers: "Intel was signed on to make the chips and Microsoft the software" (Hartley 2001, pp. 95-96). Throughout the 1980s, Microsoft and Intel "set standards for successive PC generations. And the PC was to become the product of the future, shouldering aside the giant mainframe that was IBM's strength" (Hartley 2001, p. 96). In failing to maintain and protect its ability to dictate standards for new technology, IBM greatly weakened its competitive position.

In a changing market, therefore, no firm can be assured of continued dominance. Wise managers will continually maintain and protect their resources in order to please customers and blunt any competitive challenges.

## PROPOSITIONS

Resource management provides a vital connection between the broad direction set by firm strategy and the (hoped for) outcome of SCA. In military terms, one may think of Porter's low cost-differentiation options as the *strategy* and the resource management activities as the *tactics* operationalizing that strategy. Scholars, however, lack an adequate understanding of the tradeoffs involved in resource management. In the following paragraphs we explain a) how selection of one of Porter's (1985) firm strategies will influence managerial emphasis (or lack thereof) on each of Morgan's (1999) resource management activities and b) how the decision made in a) will influence firm financial performance.

**TABLE 2**
**Resource Management Emphasis by Strategy (P1 - P4)**

| Task | Low Cost | Differentiation |
|---|---|---|
| Efficient Acquisition | Major Emphasis | Lesser Emphasis |
| Bundling/ Combining | Lesser Emphasis | Major Emphasis |
| Positioning | Lesser Emphasis | Major Emphasis |
| Maintenance/ Protection | Major Emphasis | Lesser Emphasis |

### Propositions 1 through 4: Firm Strategy and Resource Management

*Proposition 1:* Emphasis on a low cost strategy will be positively linked to managerial emphasis on efficient acquisition of resources.

Porter (1985) makes the intuitive assertion that firms may attain SCA through a low cost strategy only by pushing their costs below those of competing businesses. Therefore, executives pursuing a low cost strategy should attempt to minimize resource acquisition costs.

For example, Southwest Airlines maintains its low cost position through a heavy emphasis on efficient resource acquisition. Management saves on inventory, training, and maintenance by building Southwest's fleet around a single airplane – the Boeing 737. Further, there are no meals and no assigned seats on flights (Hartley 2001). Southwest's practices clearly result in lower costs; Jaffe (1991) found that Southwest's cost per revenue mile was less than ten cents versus an industry average of approximately fifteen cents.

Similarly, while trying to build an affordable car for the "working person" during the early 1900s, Ford Motor Company's top management employed rigorous cost controls. Henry Ford was obsessed with controlling (and cheapening) every aspect of production; Ford once ripped apart a Model T that his engineers had "improved" while he was on vacation (Halberstam 1986). Ford's methods produced the intended results: the inflation-adjusted price of a new Model T declined by approximately 75 percent between 1909 and 1923 (Aaker 2001).

*Proposition 2:* Emphasis on a differentiation strategy will be positively linked to managerial emphasis on bundling/combining resources.

There are a number of reasons to predict that differentiators will emphasize bundling/combining resources. By definition, a strategist pursuing differentiation hopes to do something novel. It is far easier to devise a unique, valuable offering if the strategist employs multiple resources. Correspondingly, "Successful differentiation strategies grow out of coordinated efforts of all parts of a firm" (Porter 1985, p. 119).

From the above discussion, one may discern two reasons that bundling/combining resources is vital to a differentiation strategy. First, successfully bundling/combining resources offers a means of creating a unique source of customer value. Second, at the same time, bundling/combining multiple resources makes it more difficult for other firms to "compete away" the advantages attained through your differentiated offerings.

Bundling/combining produces a successfully differentiated offering only when it significantly enhances customer value. "A differentiation strategy needs to add value for the customer" (Aaker 2001, p. 155). In the 1980s Borden undertook a rash of acquisitions but could not consolidate its new assets into attractive offerings: "Borden was now finding difficulty in digesting its hodgepodge of acquisitions. … It continued to operate as a conglomeration of unintegrated businesses…" (Hartley 2001, p. 199).

Bundling/combining inputs yields a set of "higher order" resources; the complexity of these resources means that bundling/combining produces not only differentiation, but that any advantages derived from such a position are likely to endure (Morgan 1999). Similarly, "Duplication by competitors requires not only ability, but will. Increasing the investment or risk involved will discourage competitors. If, for example, multiple points of differentiation are involved, duplication will be more expensive" (Aaker, 2001, p. 157). For instance, "Saturn has no haggle pricing, a reliable car, safety features, a committed company, and the Spring Hill, Tennessee (made in the United States), connection. Duplicating only one aspect of this differentiation strategy would be inadequate" (Aaker 2001, p. 157).

In the short run, competitors are unlikely to "compete away" the differentiated position conferred by bundling/combining. Both the complexity of bundling/combining and the significant time required to build resource stocks are likely to hinder attempts at imitation.

*Proposition 3:* Emphasis on a differentiation strategy will be positively linked to managerial emphasis on positioning resources.

A firm may offer an attractive product, but still not attain SCA. Consumers are fickle. In addition to bundling and combining, a differentiation strategy rests upon a firm's ability to position its resources for some market.

There are two interrelated reasons that a differentiation strategy requires superior positioning. First, "A differentiation strategy must add value for the customer [and]…the value added must be perceived by the customer" (Aaker 2001, pp. 155-156). Second, consumers must be willing to pay a premium because differentiation is generally costly: "A differentiation strategy is often associated with higher price, because it usually makes price less critical to the customer and because differentiation usually costs something" (Aaker 2001, p. 156).

Positioning takes on added importance as a differentiator in an overcrowded marketplace:

> …perceptual attributes must be considered in positioning most products. One reason is the growing similarity of more and more products. This increases the importance of other, largely subjective dimensions. Consider, for example, whether Nike's Air Jordan basketball shoes would have sold as well without Michael Jordan's endorsement and presence in their ads (Boyd et al. 2002, p. 212).

Therefore, managers must understand the sources of uniqueness within their firms: "The drivers [of differentiation] interact to determine the extent to which an activity is unique. A firm must examine each of its areas of uniqueness to see what driver or drivers underlie it" (Porter 1985, p. 127).

Strategists differentiate products through unique market positions; restated, strategists need to look for a creneau (French for "hole") in the market (Ries and Trout 1986). For example, Ford Motor Company occupies three distinct positions: Lincoln (luxury), Mercury (middle) and Ford (lower). However, in the 1950s Ford's management attempted to position the Edsel as a second mid-priced brand (between Lincoln and Mercury). To consumers, Ford had not sufficiently differentiated Edsel's position from that of Mercury or a host of other mid-priced sedans. For this reason, among others, the Edsel flopped (Ries and Trout 1986).

In summary, "Differentiation stems from uniquely creating buyer value…" (Porter 1985, p. 150). More succinctly still, "Positioning is basically concerned with differentiation" (Boyd et al. 2002, p. 207).

*Proposition 4:* Emphasis on a low cost strategy will be positively linked to managerial emphasis on maintenance/protection of resources.

The Vanguard Group mutual fund is a low cost competitor: "the typical mutual fund has an expense ratio of 1.24 percent annually. The ratio for Vanguard's 101 funds is .28 percent, almost a full percentage point lower" (Hartley 2001, p. 275); further, management strives to maintain its cost advantage. Vanguard a) has virtually no paid promotions, b) penalizes investors who frequently redeem their funds, and c) has no sales outposts apart from its headquarters. Moreover, the fact that Vanguard is a not-for-profit company helps protect its SCA; Vanguard's competitors are for-profit firms unlikely to sacrifice earnings and promotions in order to compete in the low-price niche. By maintaining and protecting their SCA, Vanguard has become the low-cost leader and one of the top-performing mutual funds (Hartley 2001).

A low cost firm, then, must maintain and protect its resource base.

A firm pursuing a low-cost strategy must maintain and protect its resource position because a low cost SCA may flow only from proprietary resources:

"Learning can spill over from one firm in an industry to another… Where spillover of learning among firms is high in a value activity, the rate of learning may stem more from total industry learning than from the learning of one firm. Since a sustainable cost advantage results only from proprietary learning, the rate of spillover also determines whether learning serves to create a cost advantage for a firm or simply lowers cost for the industry" (Porter 1985, p. 74).

Porter also holds that only one firm in a market may compete successfully on a low cost basis. Therefore, management at "low cost" firms must a) strive to build and preserve (maintain) a superior set of cost-minimizing resources while b) keeping (protecting) those resources from "spilling over" to competitors.

Given that SCA flows only from proprietary resources, then, maintenance-protection is important for firms pursuing a low cost strategy. It follows that internal output controls are effective under a low cost strategy (Govindarajan and Fisher 1990). Such controls serve a protective function and keep key information from "leaking" to outside organizations.

The U.S. auto industry provides a dire example of what can happen to cost structures when strategists allow resource positions to deteriorate. Over a relatively short period of time, the Big Three automakers surrendered the bargain-priced segment to Japanese competitors who focused on low-cost manufacturing (Halberstam 1986). Prices of similar American and Japanese models reveal the devastating consequences this philosophy had on Detroit's competitiveness. U.S. automakers enjoyed a price advantage in 1952 ($1500 versus $2950); during the 1961 model year, the Japanese car was $100 cheaper ($1850 versus $1750). By 1970 the Americans were no longer price competitive; the Japanese model was more than $1000 cheaper ($2215 versus $1210) (Rapp and Hout 1972).

By failing to maintain and protect their manufacturing resources, the apathetic Big Three ceded the compact market. Japanese competitors, who made the low-end of the auto market a strategic priority, came to dominate this segment by developing a strong resource base emphasizing cost-efficient production.

**Proposition 5 through 6: Firm Strategy, Resource Management, and Financial Performance**

*Proposition 5:* An emphasis on a differentiation strategy, bundling/combining resources, and positioning resources will be positively related to financial success.

*Proposition 6:* An emphasis on a low cost strategy, efficient acquisition of resources, and maintenance/protection of resources will be positively related to financial success.

The discussions following Propositions 1 through 4 provide the rationale for the assertion that managers should align strategic choices with resource management decisions. It follows that matching firm strategy and resource management should produce a measurable result: in this case, improved financial performance for the firm. Firms following a differentiation strategy and emphasizing bundling/combining and positioning should obtain superior financial performance, while low cost firms emphasizing efficient acquisition and maintenance/protection of resources should also be financially successful.

**TABLE 3**
**Effects of Matching Strategy & Resource Management for Differentiators (P5)**

| Firm Emphasizes: | Financial Impact: |
|---|---|
| Efficient Acquisition | Negative (-) |
| Bundling/Combining | Positive (+) |
| Positioning | Positive (+) |
| Maintenance/Protection | Negative (-) |

**TABLE 4**
**Effects of Matching Strategy & Resource Management for Low Cost (P6)**

| Firm Emphasizes: | Financial Impact: |
|---|---|
| Efficient Acquisition | Positive (+) |
| Bundling/Combining | Negative (-) |
| Positioning | Negative (-) |
| Maintenance/Protection | Positive (+) |

## DISCUSSION

As a colleague commented during the course of this research: the essence of strategy is choice. If strategists could simultaneously pursue an unlimited number of options, there would be nothing interesting to study. However, such is not the case; resources and time are limited and the strategist seeking SCA must make the best decisions possible within those constraints.

Since Porter (1985) published his influential research on strategy and SCA, there has been a flurry of research on both topics. In spite of those efforts, scholars do not sufficiently understand the connections between the two concepts. Our study answers Day and Wensley's (1988) call to fill the chasm between the two concepts. Specifically, we propose that managers must align firm strategy with resource management choices. Strategists selecting a low cost strategy should emphasize efficient acquisition and maintenance/protection of resources. On the other hand, managers choosing a differentiation strategy should emphasize bundling/combining and positioning resources. The second set of propositions follows intuitively from the first. Here we propose that matching strategy and resource management will help firms attain superior financial performance. From a different perspective, we are suggesting that "harmonizing" strategy and resource management tasks will help a firm attain SCA.

The study also contributes an improved understanding of the resource-based view of the firm; resource-based theory holds that resources provide the basis for superior firm performance (Hunt and Morgan 1995). Morgan (1999) enumerates the steps managers must undertake to move toward strategy's Holy Grail: SCA. By grounding our study in Morgan's framework, we answer Dougherty's (1996) call for researchers to focus on the activities leading to organizational performance. Further, our study allows scholars to move forward from merely asserting that "resources lead to competitive advantage" to providing specific insights into the activities and strategies necessary to attain SCA.

There are many opportunities for extensions of this study. Perhaps the most ambitious would involve creating a set of measures to study the three main concepts. In the best tradition of theory building, each proposition provides fertile ground for empirical verification. A number of unanswered questions could also serve as the basis for future research:

- Scholars could ask how much strategists vary their "emphases" on each of Morgan's four activities. For instance, do managers place a heavier emphasis on efficient acquisition or maintenance/protection?
- Researchers might also examine differences in the strategy-resource management-SCA link by industry; specifically, one might ask whether the same pattern holds for strategists at service and manufacturing firms.

- Similarly, it would be interesting to know whether large and small firms differ in the manner and effectiveness in which they manage resources.
- Finally, one could examine whether any factors mediate or moderate the basic relationships between the variables in the strategy-resource management-SCA process.

At first glance, working Webster's (1992) "strategic puzzle" may seem to rely more on fortune than on skill. However, a closer look reveals that managers who are aware of the connections between firm strategy, resource management, and SCA may improve their prospects dramatically:

> *There's no such thing as chance/and what to us seems merest accident/Springs from the deepest source of destiny*- Friedrich von Schiller, *The Death of Wallenstein*, 1798

## REFERENCES


Aaker, David A. (2001), *Strategic Market Management* (Sixth Edition), New York: John Wiley and Sons, Inc.

Bernstein, Aaron (1999), *Grounded: Frank Lorenzo and the Destruction of Eastern Airlines*, Frederick, MD: Beard Books.

Black, Janice A. and Kimberley B. Boal (1994), "Strategic Resources: Traits, Configurations and Paths to Sustainable Competitive Advantage," *Strategic Management Journal*, 15, 131-148.

Boyd, Brian K. (2003), "Flying High at Allegis," retrieved from http://www.briankboyd.com,(May 14, 2003).

Boyd, Harper W., Jr, Orville C. Walker, Jr., John Mullins, and Jean-Claude Larreche (2002), *Marketing Management: A Strategic Decision-Making Approach* (Fourth Edition), Boston: McGraw-Hill.

Burgelman, Robert A. (1983), "A Model of the Interaction of Strategic Behavior, Corporate Context, and the Concept of Strategy," *Academy of Management Review*, 8(1), 61-70.

Day, George S. and Robin Wensley (1988), "Assessing Advantage: A Framework for Diagnosing Competitive Superiority," *Journal of Marketing*, 52(2), 1-20.

Dierickx, Ingemar and Karel Cool (1989), "Asset Stock Accumulation and Sustainability of Competitive Advantage," *Management Science*, 35(December), 1504-1511.

Dougherty, Deborah (1996), "Organizing for Innovation," in Stewart R. Clegg, Cynthia Hardy, and Walter R. Nord (eds.), *Handbook of Organizational Studies*, pp. 424-439, Thousand Oaks, CA: SAGE Publications.

Govindarajan, Vijay and Joseph Fisher (1990), "Strategy, Control Systems, and Resource Sharing: Effects on Business-Unit Performance," *Academy of Management Journal*, 33(2), 259-282.

Halberstam, David (1986), *The Reckoning*, New York: William Morrow and Company, Inc.

Hartley, Robert F. (2001), *Marketing Mistakes and Successes* (Eighth Edition), New York: John Wiley and Sons, Inc.

Hunt, Shelby D. and Robert M. Morgan (1995), "Marketing and the Comparative Advantage Theory of Competition," *Journal of Marketing*, 59(2), 1-15.

______ and ______ (1996), "The Resource-Advantage Theory of Competition: Dynamics, Path Dependencies, and Evolutionary Dimensions," *Journal of Marketing*, 60(4), 107-114.

Irishcar.com (2001), "GM to Spend $4 billion Improving Cadillac," (February 1), retrieved from: http://irishcar.com, (April 17, 2003).

Jaffe, Charles A. (1991), "Moving Fast by Standing Still," *Nation's Business*, October, 58.

Liebeskind, Julia Porter (1996), "Knowledge, Strategy, and the Theory of the Firm," *Strategic Management Journal*, 17(Winter), 93-107.

Makamson, Edwin Lee (2003), "History of Mergers and Acquisitions," retrieved from http://www.mgmtguru.com, (May 21, 2003).

Mehra, Ajay (1996), "Resource and Market Based Determinants of Performance in the U.S. Banking Industry," *Strategic Management Journal*, 17, 307-322.

Montealegre, Ramiro (2002), "A Process Model of Capability Development: Lessons from the Electronic Commerce Strategy at Bolsa de Valodres de Guayaquil," *Organization Science*, 13(5): 514-531.

Morgan, Robert M. (1999), "Relationship Marketing and Marketing Strategy: The Evolution of Relationship Strategy within the Organization," in Jagdish Sheth and Atul Parvatiyar (eds.), *Handbook of Relationship Marketing*, Thousand Oaks, California: SAGE.

Peteraf, Margaret (1993), "The Cornerstones of Competitive Advantage: A Resource-Based View," *Strategic Management Journal*, 14, 179-191.

Pettus, Michael L. (2001), "The Resource-Based View as a Developmental Growth Process: Evidence from the Deregulated Trucking Industry," *Academy of Management Journal*, 44(4), 878-896.

Porter, Michael E. (1985), *Competitive Advantage*, New York: Free Press.

Powell, Thomas C. (1995), "Total Quality Management as Competitive Advantage: A Review and Empirical Study," *Strategic Management Journal*, 16(1), 15-37.

Procter and Gamble (2003), "P and G: United States," retrieved from http://www.pandg.com, (May 1, 2003).

Rapp, William V. and Thomas Hout (1972), "Competitive Development of the Japanese Automobile Industry," in Jerome Cohen, ed., *Pacific Partnership: United States-Japan Trade*, Lexington, MA: D.C. Heath, 201-220.

Ries, Al and Jack Trout (1986), *Positioning: The Battle for Your Mind* (First Edition – Revised), New York: Warner Books.

Srinivasan, Raji, Gary L. Lilien, and Arvind Rangaswamy (2002), "Technological Opportunism and Radical Technology Adoption: An Application to E-Business," *Journal ofMarketing*, 66(3), 47-60.

Swasy, Alecia (1993), *Soap Opera: The Inside Story of Procter and Gamble*, New York: Times Books.

Webster, Frederick E., Jr. (1992), "The Changing Role of Marketing in the Corporation," *Journal of Marketing*, 56(4), 1-17.

Wernerfelt, Birger (1984), "A Resource-Based View of the Firm," *Strategic Management Journal*, 5(2), 171-180.

Wiggins, Robert R. and Timothy W. Ruefli (2002), "Sustained Competitive Advantage: Temporal Dynamics and the Incidence and Persistence of Superior Economic Performance," *Organization Science*, 13(1), 82-105.