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Competitive Advantage in International Services: A Resource-Based View

An impressive body of literature on the management of service companies has emerged since G. Lynn Shostack advocated, in 1977, that services "break free" (Shostack, 1977). The unique characteristics of services have received acceptance, while related issues of service design and production, services marketing, and services management have been given an impressive amount of attention in books and leading journals.

Despite this progress, a number of issues mandate continued scrutiny. There is the growing recognition that the boundaries between goods and services have become increasingly blurred and that the majority of goods contain significant service components and vice versa. For example, some commentators have noted the potential for competitive advantage that is inherent in correctly leveraging the service components of products (Quinn, Doorley, and Paquette, 1990). This fluidity is perhaps best captured in Shostack's (1977) molecular model, which views all market entities as containing some tangible and intangible elements with services being defined as intangible-dominant entities. The outcome of this dialogue has been an increase in the number of services management perspectives that are applicable in what were traditionally considered manufacturing domains and, conversely, an increase in the level of attention given to the strategic management of service firms (Allen, 1988; Coyne, 1989; Davidow and Uttal, 1990).

Central to this debate is the issue of how service companies can attain a sustainable competitive advantage.[1] Service businesses generally are noted for their high level of mimetic or imitative behavior. Innovations, such as new types of bank accounts or investment vehicles, are invariably quickly imitated by competitors. Innovative airlines, which sought to use frequent flyer programs to build switching costs for customers, found that, very quickly, many other major

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airlines were offering similar incentives. This level of imitation has focused attention on what kinds of resources and capabilities a service firm might leverage in order to gain a competitive advantage.

Gaining positions of competitive strength has become more important in an environment that has become increasingly global and competitive (Vandermerwe and Chadwick, 1991). Competition in industries such as air travel and transportation is inherently more global than in many manufacturing businesses. Deregulation in the likes of financial services has ushered in a new era of global competition and quick competitive reactions. The size and importance of the service sector has grown considerably. This sector accounted for 74 percent of gross domestic product and about 79 percent of national employment in the United States in 1992. In addition, almost 60 percent of total value added in the U.S. economy in 1992 came from private (nongovernment) services (Bureau of Economic Analysis, 1993).

This paper responds to these developments by proposing a model of competitive advantage in the international services sector, which is designed to help managers evaluate the potential sources of such advantage. It draws heavily on an existing foundation of literature spanning the disparate fields of services marketing, strategic management, international business, and industrial organization economics. At the intersection of these strands of thought is the resource-based view (RBV), which is the conceptual premise of this paper. The next section outlines the perspectives provided by the RBV for international services firms. Subsequently, a conceptual model is presented, and selected sources of international competitive advantage are outlined. Finally, conclusions are drawn and implications discussed.

Competition in international business: Insights from the resource-based view

Organizational strategy has long been viewed as the challenge of matching internal resources and strengths with the opportunities existing in the environment. This is perhaps best summarized in the seminal framework of Learned, Christensen, Andrews, and Guth (LCAG) (1969), shown in figure 1. Thus, the task of strategic management is viewed in terms of the interplay of the personal values of management with the firms' skills and resources, and of how these are matched to environmental opportunities/threats and broader societal expectations.

Throughout the early 1980s, the broad thrust of strategy research focused on the second quadrant of figure 1. This research is best demonstrated by the work of Porter (1980, 1981). It posited that a firm's performance was largely a function of the structure of the industry and the firm's position in the industry. However, empirical research toward the end of the decade (e.g., Cool and Schendel, 1987; Hansen and Wernerfelt, 1989; Rumelt, 1991; Wernerfelt and Montgomery, 1988) increasingly began to show greater performance differences

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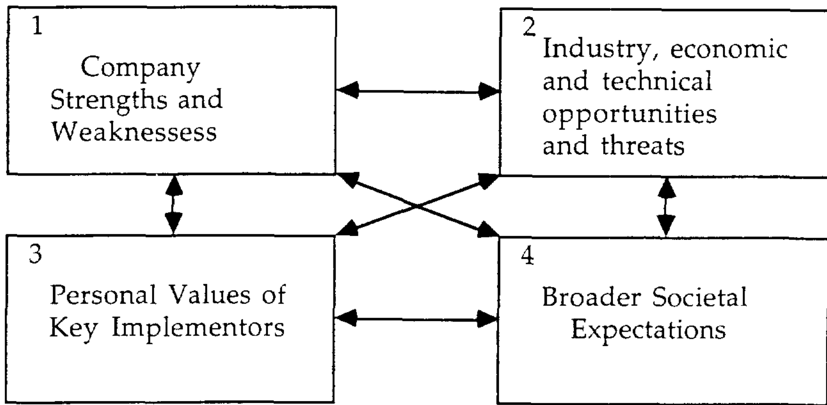

Figure 1 The Learned, Christensen, Andrews, and Guth (LCAG) Framework (1969)

among firms in the same industry than across industry boundaries. Allied to this was a conceptual swing toward the end of the decade back to a forgotten portion of the LCAG framework, namely quadrant 1. Building on earlier work by Penrose (1959) and Nelson and Winter (1982), what has become known as the resource-based view is illustrated by the work of Barney (1986, 1991), Conner (1991), Dierickx and Cool (1989), Grant (1991), Mahoney and Pandian (1992), and Peteraf (1993), to name but a few.

The resource-based view focuses on heterogeneity among firms in the same industry. It views firms in terms of unique bundles of resources and capabilities that provide the basis upon which a competitive advantage can be pursued. The normative implication of this view is that the firm should base its strategy on its own resources and capabilities. Irrespective of the markets or combination of markets served, firms should seek to leverage the resources best suited to those markets. This may even lead to a situation where the firm will choose to compete in inherently less structurally attractive markets if it possesses resources that are valuable in serving those markets (Collis, 1991). Of course, in an international context, there may be other motives for competing in structurally unattractive markets, most notably defensive foreign direct investment (Graham, 1978; Knickerbocker, 1973) or cross-subsidization (Hamel and Prahalad, 1985), where firms try to preempt the strategic moves of international rivals.

Conditions necessary for competitive advantage

The potential to confer a competitive advantage is not inherent in all resources (Wernerfelt, 1989) but, rather, in only those that meet a rigorous set of conditions (see Barney, 1991, and Peteraf, 1993). The first condition is that the resource must be *valuable*—it must provide the opportunity to exploit some

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environmental opportunity or neutralize some threat. Resources are considered valuable when they enable a firm to conceive of or implement strategies that improve the firm's efficiency or effectiveness (Barney, 1991). Some authors construe value in terms of meeting a key buyer need (Aaker, 1989; Coyne, 1985).

In addition, resources must have the characteristic of *rareness*. If valuable resources are possessed by a large number of competitors or potential competitors, they no longer represent a source of competitive advantage. This is the key issue of heterogeneity underlying the resource-based view—firms possessing unique bundles of skills and resources can attain a sustainable competitive advantage. Third, there must be the condition of imperfect mobility of resources. Where resources are easily traded between competitors, no competitive advantage can be maintained. Imperfectly mobile resources include those that are idiosyncratic to the firm (Williamson, 1979), those for which property rights are not well defined (Dierickx and Cool, 1989), or those that are co-specialized assets (Teece, 1986).[2] The imperfect mobility of assets is a critical factor in service businesses as people are the key assets in many cases, and their high mobility frequently results in the loss of accounts and the emergence of new competitive threats as in the case, for example, with personnel employed by advertising agencies and moving to other ones.

Finally, for an advantage to be sustained, resources must be *imperfectly imitable* (Barney, 1991) or provide some *ex-post* limits to competition: That is, subsequent to a firm gaining a superior position and earning rents, forces must exist that limit competition for those rents (Peteraf, 1993). It was noted above that innovations such as the development of a new type of account by a retail bank or a new advertising style by a creative department frequently results in a host of imitations from competitors. For a firm to be in a position to exploit a valuable and rare resource, there must be a resource position barrier preventing imitation by other firms (Wernerfelt, 1984). Sustaining a competitive advantage over a period of time requires the presence of isolating mechanisms that prevent imitation. Several such barriers that have been cited in the literature include causal ambiguity (Reed and DeFillippi, 1990) and uncertain imitability (Lippman and Rumelt, 1982), where the drivers of success are difficult to identify. Imitation may also be prevented by the processs of asset stock accumulation within the firm. Where these stocks possess the characteristics of time compression diseconomies (accumulation has taken place over a long period of time), asset mass efficiencies (a critical mass of stocks has been developed), and interconnectedness (stocks are interrelated), then imitation is difficult (Dierickx and Cool, 1989). Indeed, the significance of asset stock accumulation in the services sector has been demonstrated elsewhere, when the "reservoir of organizational and managerial expertise that has been built up over the years can provide branch offices with information at a cost very much lower than a de novo indigenous firm would have to incur" (Boddewyn, Halbrich, and Perry, 1986, p. 50)—in other words, an ownership advantage in international competition.

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Thus, service firms must seek to identify the skills and resources they possess and that meet the above criteria, and to leverage such resources to attain a competitive advantage. For service firms trading internationally, there is the added dimension of the location of such resources, which may be in the home or host country, or both. The traditional international-business literature and the more recent global strategic management literature have identified that the success of a multinational firm is likely to be based on some combination of three sets of advantages, namely, firm-specific advantages, country-specific advantages, and internalization advantages. In resource terms, this effectively amounts to the combination of country-specific and firm-specific resources since internalization or coordination can be viewed as a managerial capability and hence a firm-specific resource (Itaki, 1991).

The conceptual lens of the RBV demonstrates important differences between these two sets of resources. Country-specific resources derive from the resource endowments of countries or, in neoclassical economics terms, its comparative advantages (Kogut, 1985a). Country-specific resources are available on equal terms to all firms competing in an industry (Dunning, 1981). Therefore, there are no barriers to prevent competing firms from imitating a given firm's portfolio of country-specific advantages. It is recognized, however, that a given firm's ability to gain access to these resources or to preempt their usage may be dependent on firm-specific political competences (Boddewyn, Halbrich, Perry, and Brewer, 1994). In addition, some authors suggest that country-specific advantages are dynamic and change over time—for example, Japan's move from a low-labor-cost country to a high-labor-cost country (Doz, 1987; Porter, 1986). However, firm-specific resources are considered unique to the firm (Dunning, 1981), and, therefore, are likely to possess greater barriers to imitation, which suggests that they will be a more important source of competitive advantage.

Resources versus capabilities

Authors have recently sought to distinguish between the potential rent-generating assets of an organization. A variety of distinctions have been suggested, including assets and core competences (Prahalad, Doz, and Hamel, 1990), resources and capabilities (Amit and Schoemaker, 1993; Grant, 1991; Stalk, Evans, and Schulman, 1992), intellectual assets and nonintellectual assets (Hall, 1989), tangible and intangible resources (Hall, 1992), and assets and skills (Aaker, 1989). Despite the range of nomenclature, the issue being addressed by the various authors is similar, namely, that the rent-generating assets of an organization can be broadly classified in terms of two basic types. On the one hand, there are the organization's *resources*, which are tangible, can be either inputs or outputs, and possess two key attributes: *ownership* and *value*. Ownership can be legal in terms of title deeds to land, property, or equipment, or in intellectual property such as patents, trademarks, licenses, or trade secrets. In addition, the

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firm may own assets that are not legal in nature, such as reputation with customers, organizational or personal networks, and databases (Hall, 1989, 1992). The most acceptable measure of value from an accounting perspective is exchange value. Thus, resources in the main are viewed as relatively easy to trade between firms.

On the other hand, organizations also possess *capabilities* or competences—that is, the capacity to deploy resources, usually in combination, in order to effect a desired end (Amit and Schoemaker, 1993). The key characteristics of capabilities are that they are firm-specific and developed over time (Amit and Schoemaker, 1993; Grant, 1991; Prahalad and Hamel, 1990), but, unlike resources, they are not easily tradable between firms. In general, capabilities are information-based or intellectual assets (Itami, 1987). In addition, they tend to be cross-functional or arise from the integration of individual functional capabilities (Amit and Schoemaker, 1993; Grant, 1991) and thus are sometimes referred to as "intermediate goods" in the production process. Therefore, by definition, capabilities meet the requirements of rareness and inimitability and are a strong basis for competitive advantage (Stalk, Evans, and Schulman, 1992). The normat'e implication of this logic is that service-firm capabilities are likely to be the most sustainable source of competitive advantage.

Home- and host-country firm-specific resources and capabilities

The issue of potential synergies between home- and host-country firm-specific advantages has been a central issue in the vast body of work that broadly falls within the gambit of *globalization*. The globalization debate began in the early 1980s and has continued with intensity ever since. One of the primary hypotheses of globalization was that markets were converging (Levitt, 1983). Reaching back to the marketing-standardization literature of the 1960s, this meant that companies could be successful by selling standardized products throughout a global market at low prices due to the resulting economies of scale, in effect utilizing only home-country firm-specific advantages. This was in sharp contrast to the earlier view of the multinational corporation as a collection of autonomous subsidiaries tailoring resource use and strategy to particular local market needs. However, even some of the early proponents of globalization conceded that this hypothesis might be a little simplistic, and began to suggest that standardization was a matter of degree (Hout, Porter, and Rudden, 1982; Quelch and Hoff, 1986).

From this recognition of complexity emerged the view that, to be successful in the global marketplace, the firm must organize itself to achieve the benefits of global integration, national responsiveness, and learning (Bartlett and Ghoshal, 1989). In resource terms, this meant that the firm should not rely solely on the resources of the parent company (global integration) or the subsidiary (national responsiveness), but must seek to emphasize both and successfully transfer learning in both directions (i.e., from the home-country headquarters to the subsidiary

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and vice versa). So, while several authors contend that a company should pursue a global strategy on the basis of the globalization potential of the industry (Porter, 1986; Yip, 1989), there is a contrasting view that firms need to combine both global and local dimensions, sometimes known crudely as "glocalization" (Main, 1989).

Stated in resource terms, this "transnational solution" suggests that superior performers in international business will combine both home- and host-country firm-specific resources and capabilities. This suggests that service firms must consider extensive foreign direct investment and create an opportunity for the successful combination of home- and host-country firm-specific resources and capabilities. However, other "nonequity" forms of organization, with origins largely in the services sector, such as licensing, franchising, and management contracts, equally present an opportunity for the successful integration of home- and host-country resources (Boddewyn, Halbrich, and Perry, 1986; Dunning and McQueen, 1982). Their effectiveness in achieving such integration seems to be greater in consumer services than in industrial or business services (Boddewyn, Halbrich, and Perry, 1986).

Country-specific and firm-specific resources

Porter (1990) highlighted that many firm-specific resources were rooted in the firm's country of origin. This is illustrated by the strength of German companies in engineering, of U.S. companies in consumer goods and services, and of Italian companies in craft-based industries. Kogut (1991) extended this analysis to show that long cycles of country leadership in international competition can be explained by differences in country capabilities embodied in the firms in these countries. In addition, many of these capabilities are sticky and diffuse slowly across borders due to four factors: technological opportunities, selection forces, identifiability, and institutional lock-in. In terms of technology, many firms have established relationships with country-specific research centers, trade associations, educational institutions, and skilled individuals. These relationships are built up over a long time and are not easy to replicate in other countries. In many cases, these are the clusters of organizations identified in Porter's "diamond" framework (Porter, 1990). Equally, selection pressures are analogous to Porter's concept of domestic rivalry, an essential requirement to the development of globally competitive firms. Identifiability refers to domestic firms having a better understanding of the sources of success of domestic competitors than do international competitors. This understanding can have numerous reasons and results in a greater propensity to imitate domestic competitors that leads to greater national rather than international diffusion of management capabilities. Institutional lock-in is analagous to the notions of administrative heritage (Bartlett and Ghoshal, 1989) or strategic commitment (Ghemawat, 1991) at a national level where the change and adoption of new techniques are impeded by previous investment,

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past practices, and perceived wisdom. The immediate implication of this analysis is that the firm-specific advantages underlying service-firm strategy are likely to vary from country to country, reflecting the fact that such advantages derive largely from the country of origin and diffuse slowly across borders.

Kogut (1991), however, noted that long cycles of country leadership are driven not only by technological investments (resources) but also by the efficiency of the dominant organizing principles (capabilities). Foreign direct investment is the extension of the organizing principles of domestic firms to foreign markets. Organizational types, such as the global firm, provide a vehicle for the diffusion of capabilities across borders due to the high level of integration (Prahalad and Doz, 1987) or coordination (Porter, 1986) of its activities. Close interaction between parents and subsidiaries is also a central aspect of the transnational firm, which has been advocated as the organizational type most suitable, given the current complexity of international business, though not necessarily in every industry (Ghoshal and Nohria, 1993). Most major multinational firms have at various times experimented with increasing the integration of their operations. The learning that has accrued from these integration efforts suggests that the firm-specific advantages underlying the strategy of leading international competitors will not vary from one host country to another, thereby reflecting the diffusion of management capability.

Toward a resource-based model of competitive advantage in international business

The process by which resources and capabilities are translated into a competitive advantage for the multinational firm is outlined in figure 2, which demonstrates that superior performance is likely to be attained through the adoption of strategies based on a combination of home- and host-country firm-specific resources with host-country location-specific resources. It highlights that management plays an essential role in leveraging this resource pool in ways that enable the firm to gain advantage. Management must make choices regarding which product markets to compete in, whether to try to attain a position of low-cost leadership or differentiation, or both, and which resources and capabilities to use in order to attain these positions of competitive leadership. Superior performance, which can be measured in the conventional terms of market share leadership or return on investment, accrues to firms achieving a competitive advantage. Sustaining the advantage over time requires reinvestment on the basis of competitive strength.

This model is an extension of the model of competitive advantage that can be found in the strategic-management literature (see Bharadwaj, Varadarajan, and Fahy, 1993), but it clearly sits very comfortably with the extant international business literature (see Dunning, 1981; Rugman and Verbeke, 1992), as well as the "transnational solution" proposed by Bartlett and Ghoshal (1989) to help managers deal with the complexity of international business.

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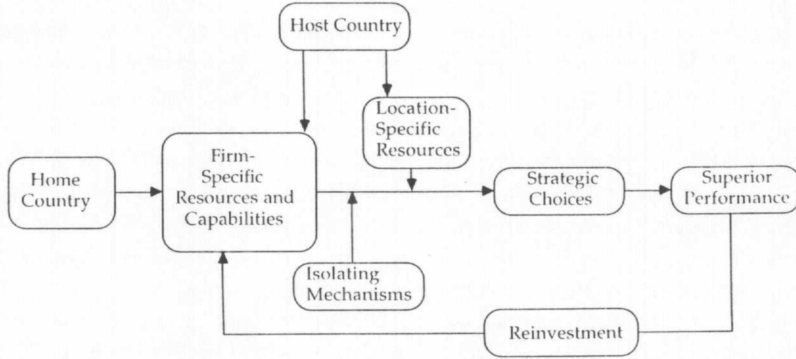

Figure 2 A Resource-Based Model of Competitive Advantage in International Business

Sources of competitive advantage for international service firms

The model presented in figure 2 is designed to assist managers of service firms in building a sustainable competitive advantage on the foundation of the resources and capabilities inherent in the company. It also helps managers identify *which* skills and resources are most likely to be an important source of advantage and to realize the importance of being able to combine potential advantages from both home- and host-country locations. In specific cases, the actual skills and resources underlying competitive advantage are likely to be contingent on the characteristics of the service itself, the service firm, and the service industry (Bharadwaj, Varadarajan, and Fahy, 1993) as well as of the country of origin of the firm.

However, sources of advantage in service industries identified elsewhere can be seen to meet the requirements outlined in the model. For example, Stalk, Evans, and Schulman (1992) contend that the growth and subsequent market dominance of WalMart resides in the company's unique logistics capability, which confirms the importance of capabilities as a potential source of competitive advantage. The logistics system known as "cross-docking" ensures that goods are simply moved from one loading dock to another in forty-eight hours or less, resulting in minimal inventories and shaving between 2 percent and 3 percent off the cost of sales. The system is a source of competitive advantage because it meets all of the criteria outlined earlier. It is used in a value-generating way—creating cost savings in a business where tight margins are critical and low costs are a key success factor. It is a rare system, and, because it combines people, delivery vehicles, and communication systems, it is clearly immobile. But it is its inherent barriers to imitation that help to confer a competitive advantage on WalMart. It is extremely difficult to duplicate the required constant communication between suppliers, distribution centers, and sales outlets achieved through the company's investment in a private satellite communications system.

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Similarly, Pleval, Nellis, Lane, and Schuler (1994) attribute the success of AT&T's Global Business Communication Systems (GBCS) division to its unique human resource capability. Its human resource strategy is linked to overall business strategy, and review and reward mechanisms are designed to increase personal motivation while simultaneously achieving company goals. The company views its employees as "its only sustainable competitive advantage." Again, this division of AT&T has been successful because it utilizes a set of resources/capabilities that meet the criteria necessary for competitive advantage. GBCS uses people in a value-generating way by explicitly connecting their efforts with key company goals, such as using a total quality management approach, being a leader in customer-led applications of technology, and being the best value supplier. People can always leave an organization, so why do many firms contend that their people are their only sustainable advantage? In the case of GCBS, mobility of personnel is not a major concern, as its success resides not in individuals but rather in a complex set of relationships among individuals reflected in performance management, recognition, compensation practices, and communication programs. Furthermore, even though individuals who are hired away by competitors are able to describe them, these systems prove difficult to imitate because of the levels of learning that occur while these "asset stocks" are being accumulated.

The key role of people, as a source of competitive advantage in internationally traded services, is demonstrated by the high level of foreign direct investment by firms in industries like financial and management services in order to maintain control over this resource.

Conclusion

This paper contends that competitive advantage for service firms lies in the unique resources and capabilities possessed by the firm. Not all resources or capabilities are a source of competitive advantage—only those that meet the stringent conditions of value, rareness, immobility, and barriers to imitation. The actual sources of competitive advantage are likely to vary depending on the nature of the service, the particular traits of the firm, the nature of the industry, and the country of origin.

The normative implication of this analysis is that service managers conduct a rigorous analysis of internal resources and capabilities. What core resources and capabilities does the firm have, and which of any of these strengths are unique? What scope is there for making investments to develop unique resources and capabilities that would yield competitive advantages in the future? The analysis also raises the question of control of key sources of competitive advantage. Foreign direct investment arguably creates the greatest potential not only for control but also for the effective integration of resources across national boundaries. More traditional forms of organization in the services sector, such as

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licensing, franchising, and management contracts, have been shown to be effective control mechanisms in consumer, though not in business, services. Their effectiveness as a means for integrating resources may represent a fruitful area for further research.

Notes

1. Some authors argue that the pursuit of sustainable competitive advantage (SCA) may be an unrealistic goal (see, for example, Bhide, 1986). However, this argument derives from a blurring of the distinction between strategic planning and sustainable competitive advantage. It suggests that SCA can only come from "big plays that yield long-term rents" (Bhide, 1986, p. 59). However, attention to superior strategy implementation as advocated by Bhide is in itself a potential source of competitive advantage and likely to be a very sustainable one due to the complex routines that it requires.

2. Co-specialized assets are those that must be used in conjunction with one another or that have a higher economic value when used together. They are imperfectly mobile to the extent to which any one of the assets is firm-specific (Teece, 1986).

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