PURCHASING, SUPPLY CHAIN MANAGEMENT AND SUSTAINED COMPETITIVE ADVANTAGE: THE RELEVANCE OF RESOURCE-BASED THEORY

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Contrary to Ramsay's (2001) conclusion and Hunt and Davis's (2008) positioning of their recent article, resource-based theory suggests that purchasing and supply chain management will often have the attributes that can enable them to be sources of sustained competitive advantage.

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I read with interest Hunt and Davis's (2008) article on resource-advantage theory applied to supply chain management. The perspective they develop has merit in its own right and is worthy of deep reflection. However, I must admit that I was somewhat confused by the positioning of this article — a positioning that seems to take, as a settled point, that purchasing (narrowly) or supply chain management (more broadly) cannot, according to traditional resource-based logic, be a source of sustained competitive advantage. The source of this conclusion is apparently an article published by Ramsay in this journal in 2001.

Ramsay's (2001) conclusion, and thus Hunt and Davis's (2008) positioning of their article, are surprising to me, since I have always thought that resource-based logic suggests that purchasing and supply chain management may often have the characteristics that could lead them to be a source of at least a temporary advantage, if not a sustained competitive advantage for a firm. This conclusion is based on two aspects of received resource-based theory.

The first is derived directly from strategic factor market theory (Barney 1986a). Strategic factor market theory generates two important conclusions: First, when strategic factor markets are perfectly competitive, the value of resources in creating competitive advantages in product markets will be reflected in the price of these resources in factor markets. In these settings, a firm may appear to have a competitive advantage in the product market, but any economic profits that could have been realized in these product markets would have been competed away in factor markets. This important conclusion suggests that, in these perfect competition settings, knowing how product market competition is unfolding is not enough to understand sources of competitive advantage. Analysts must also understand competition in factor markets and the extent to which factor market competition anticipates competitive advantages in product markets.

The second important conclusion of strategic factor market theory is that strategic factor markets are not always perfectly competitive and that, in fact, factor market imperfections fall into two large categories: asymmetric expectations about the future value of a resource and luck. Setting aside luck, a firm that has more accurate expectations about the true value of a resource in conceiving and implementing a product market strategy can use these expectations to acquire resources in a factor market at a price that generates positive economic profits, once that resource is used to actually implement a product market strategy.

The article then asks the question: Where are these asymmetrically more valuable expectations likely to come from — from information within a firm or from information outside a firm? Not surprisingly, factor market theory suggests that information generated from within a firm's boundaries is more likely to generate distinctly more accurate expectations about the future value of an asset controlled by a firm than information from outside a firm's boundary. The article does not suggest that information from outside a firm can never generate these asymmetric expectations, only that it is less likely to do so, if only because information outside the firm is likely to be available to many competing firms and thus not distinct to any one of them.

This last conclusion is, I think, where Ramsay (2001) becomes confused about resource-based theory's implications for purchasing and supply chain management. Since, presumably, purchasing is all about acquiring resources outside a firm's boundaries, Ramsay concludes that resource-based theory suggests that purchasing, and by implication, supply chain management, cannot be a source advantage. However, if it is recognized that purchasing and supply chain management, themselves, can be a capability that firms can use to generate more accurate expectations about the future value of a resource, then rather than suggesting that resource-based theory downplays the role of purchasing and supply chain management, it can be argued that resource-based theory — and especially strategic factor market logic — points to the importance of heterogeneous purchasing and supply chain management capabilities in creating the imperfectly competitive strategic factor markets that makes competitive advantage in product markets possible.

Now, strategic factor market theory does suggest that "home grown" purchasing and supply chain management capabilities — that is, capabilities built organically, within the boundaries of a firm — are more likely to be sources of strategic factor market imperfection than if such capabilities are acquired on competitive factor markets. This is not because these capabilities are not valuable. Just the opposite — because these capabilities are valuable, and because — when acquired from outside the firm — this value is more likely to be widely known, the price of acquiring these capabilities will quickly rise to equal their value in implementing product market strategies. But firms that have been able to build their purchasing and supply chain management capabilities internally, away from the competitive pressures of strategic factor markets, can use these capabilities to gain competitive advantages, assuming, of course, that these capabilities generate more accurate expectations about the future value of the resources and capabilities a firm acquires compared to other firms.

So, for all these reasons, I was somewhat surprised at Ramsay's (2001) conclusion that resource-based theory suggests that purchasing and supply chain management can rarely be sources of competitive advantage for firms. I always thought that the theory made precisely the opposite prediction.

There is a second reason why resource-based theory would predict an important role for purchasing, and especially supply chain management, for understanding sources of competitive advantage. This second reason is derived from Barney (1986b, 1991), where the attributes of resources and capabilities that are likely to be sources of sustained competitive advantage are discussed. In strategic factors market logic, the market conditions under which capabilities can be sources of profits are discussed; in this second logic, the impact of different types of resources and capabilities on sustained advantages are discussed. From the point of view of purchasing and supply chain management, this second resource-based logic asks: Do these processes within firms have the attributes that are likely to create value, be rare among competitors, be costly to imitate, and have no close substitutes (Barney 1991)?

What are these attributes? Prior work suggests that whereas the value of resources and capabilities depends on the market within which a firm operates (Barney, 2001), the rarity, inimitability, and substitutability of resources and capabilities depends much more on the extent to which they are developed in unique historical circumstances (what Dierickx and Cool (1989) call time compression diseconomies), path dependent (Arthur 1989), causally ambiguous (Lippman and Rumelt 1982; Reed and DeFillippi 1990), socially complex (Barney 1986b), intangible (Polanyi 1962), invisible (Itami 1987), or are bundled together in complex ways (what Dierickx and Cool (1989) call interconnected assets stocks and asset mass efficiencies) (Barney 2011). So, from the point of view of the attributes of resources and capabilities and sustained competitive advantages coming from purchasing and supply chain management, the question becomes: To what extent do these valuable processes exhibit the attributes listed?

Of course, this is ultimately an empirical question. However, it seems at least reasonable to expect that the purchasing function, sometimes, and supply chain management, perhaps to a greater degree, will have the kind of attributes that can lead them to be a source of competitive advantage for a firm. Indeed, there are numerous examples of where this has occurred — some of which are quite prominent in the strategic management literature. For example, Walmart's supply chain management system, a system that is both socially complex and path dependent in nature, has been a source of advantage for Walmart for some time — at least since the 1960s (Ghemawat 1986). Also, Toyota's purchasing system, a system that has helped Toyota implement its lean manufacturing approach, has both path dependent and tacit attributes which have reduced the speed at which other automobile firms have been able to imitate it (Iyer et al. 2009). Moreover, the supply chain management literature has also identified several examples of where the purchasing and/or supply chain management functions are a source of sustained competitive advantage. Examples of this work — all published in 2011 and published in this journal — include Hartmann and De Grahl (2011), Azadegan (2011), Hitt (2011), and Paulraj (2011).

Thus, whether one takes the perspective of strategic factor market theory (Barney 1986a) or the attributes of resources (Barney 1991) approach, the conclusion seems to be the same: Purchasing, and supply chain management, can, at least in some settings, be sources of sustained competitive advantage for a firm. The challenge seems less about whether or not resource-based theory makes this prediction and more about identifying the extent to which specific firms operate in the kinds of settings that resource-based theory suggests should lead to such advantages.

It follows from this analysis that Hunt and Davis's (2008) assertion that "neoclassical equilibrium economics" cannot be used to identify the conditions under which purchasing and supply chain management can be sources of competitive advantage is not defensible. Resource-based theory is very much based in this economic tradition, and despite this, still identifies conditions under which purchasing and supply chain management can be sources of competitive advantage.

However, this does not mean that the only way this argument can be made is with economic logic. In this context, I see the application of resource-advantage theory to the question of competitive advantages stemming from purchasing and/or supply chain management as a completely legitimate alternative to the resource-based approach outlined here. Thus, this article began by suggesting that Hunt and Davis's (2008) approach has "merit in its own right."

Of course, this begs the question about whether or not resource-advantage theory is truly "non-economic" in character, and whether or not it is substantively different than resource-based theory as it has evolved in the field of strategic management. The authors of this article — in footnote 4 — suggest numerous differences between the two theories. Frankly, the characterization of resource-based theory in that footnote seems a bit strange (e.g., resource-based theory assumes innovation is exogenous (but see Alvarez and Busenitz 2001); resource-based theory suggests economic rents are bad for society (but see Barney 2011: 108–109); resource-based theory has no policy implications (but see Agarwal, Barney, Foss and Klein 2009). However, differences — and similarities — between these two theories seem like a discussion for another time and place.

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