This is the published version:


Available from Deakin Research Online:

http://hdl.handle.net/10536/DRO/DU:30017877

Reproduced with the kind permission of the copyright owner.

Copyright: 2008, World Business Institute
A Resource-Based View of China Strategy

Stuart Orr

The research suggests that Chinese companies do not subscribe to ‘western’ strategy theory. As they rapidly internationalise through massive Foreign Direct Investment, Chinese companies are developing new perspectives on achieving competitiveness. A comparison of the Resource-Based View of strategy (RBV) constructs from western literature with identified (indigenous) Chinese business strategies found that competitive advantage (CA) was derived from an adherence to the Confucian doctrines. This adherence to Confucian doctrines produced constructs common to both Western and Chinese business strategies. The most successful companies in China actually combined eastern and western strategic approaches, but focussed on the development of relationships to create and maintain CA, instead of focussing on the development of actual resources as recommended by the RBV.

Field of Research: strategic management, international business

1. Introduction

The Resource-Based View (RBV) postulates that a CA can be derived from resources and capabilities that are valuable, rare, difficult to imitate and not substitutable (Barney, 2001b). The contribution of the RBV to explaining variations in organisational performance is considerable compared to the explanatory value of other models, such as Porter’s 1980’s theory on the contribution of industry conditions (Barney, 2001b; Fahy, 2000). For example, a four-year longitudinal study of 2800 US businesses determined that, whilst industry conditions explained 4% of profitability variation, individual company resources could explain 44% (Rumelt, 1991) and a Spanish study of 1642 organisations found that industry conditions explained 3% and company resources explained 36% of performance variation (Lopez, 2001). Although there has been some good conceptual RBV development, researchers agree that empirical examination of the RBV to identify the relationship between the characteristics of resources and capabilities (constructs) when CA is created or the ability to use it to predict or control the creation of CA is needed (Arend, 2006; Fahy, 2000; Lopez, 2001). This paper analyses the constructs and relationships with CA of the RBV in the Chinese business context using published empirical evidence.

2. Literature Review

The RBV has provided a very useful basis for analysing the contribution of specific business disciplines to value creation, such as human resource management (Wright, McMahan & McWilliams, 1994), entrepreneurship and international business and (in the areas of causality) to the economic literature (Barney, 2001b). Originally,
RBV resources were identified as physical, human or organisational. Since then RBV theory has been extended to include the dynamic capabilities (the development of the ability to apply resources to create a CA) and the knowledge (which integrates organisational learning) perspective (Lopez, 2001). More recent research has focused on the impact of the management skills available to control the conversion of resources into CA (Fahy, 2000). Skills, processes and assets are possible leverages (capabilities) for converting resources into CA (Miller, 2003a). For example, a study of 164 manufacturing organisations determined that CA can result from proprietary processes and specialised equipment which can only be acquired using knowledge gained from internal and external sources (Schroeder, Bates & Junttila, 2002). This suggests that knowledge may actually form a barrier to resource substitution through imitation and supports the appropriateness of the rarity criteria proposed by Barney.

Table 1 below shows the various resource criteria recommended by Barney and selected researchers, which are mostly similar. Barney's four criterion set was selected for this research because of the simplicity, clarity of definition and scope of these criteria. Grant's criteria focus more on the internal management perspectives and do not include the value that the resources create. Grant's management criteria will be included in the research by extending the scope to cover management contributions. Collis and Montgomery's criteria are essentially the same as Barney's, except for the addition of durability. Durability is a second order criteria which, whilst clearly contributing to the long term viability of the organisation, is less important from the research perspective than the creation of value. It can also be argued that the criteria durability is represented by the criteria non-substitutability. Amit and Schoemaker's (Amit, 1993) criteria overlaps with Barney's (Barney, 2001a) criteria, with the exception of durability and complementarity. Complementarity is considered to be more appropriately measured as a research variable criteria, rather than as a resource criteria.

Table 1. Resources Criteria Necessary for CA Creation by Researcher (Fahy, 2000)

<table>
<thead>
<tr>
<th>Resource Criteria</th>
<th>Researcher</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value, rareness, inimitability and non-substitutability</td>
<td>(Barney, 2001b)</td>
</tr>
<tr>
<td>Durability, transparency, transferability and or applicability</td>
<td>(Grant, 1991)</td>
</tr>
<tr>
<td>Inimitability, durability, appropriability, substitutability and competitive superiority</td>
<td>(Collis &amp; Montgomery, 1995)</td>
</tr>
<tr>
<td>Complementarity, scarcity, low tradeability, inimitability, limited substitutability, appropriability, durability and overlap with strategic industry factors</td>
<td>(Amit, 1993)</td>
</tr>
</tbody>
</table>

Most of the empirical RBV research to date has focused on isolated areas of business operations and has led to few generalisable and unifying conclusions regarding the application of RBV theory. Empirical RBV research should consider the organisation in its entirety and investigate one (or more) bounded industries or regions so that the impact of variations (even if small) between local environments is eliminated. In this way the empirical research findings are more likely to be generalisable (Gibbert, 2006b) and create the necessary constructs for different contexts and industries (Levitas, 2006; Wilk, 2003).

The empirical RBV research to date has determined that the capability to utilise resources for CA was affected by the efficiency of the business unit operations and
corporate decision-making processes (Miller & Ross, 2003b; Riahi-Belkaoui, 2003). For example, an investigation of Brazilian wine producers determined that clusters could also share the resources and the capabilities necessary to gain a CA (Wilk, 2003). Not unexpectedly, this research also identified that cognitive mapping of the resources and capabilities of the cluster provided an improved management understanding of how to increase the efficiency of the cluster's capability to transform resources into a CA. RBV research in the US food retail industry determined that a general organisational dynamic capability could affect the application of some resources (such as supply chain management skills), but did not affect other resources (such as environmental management skills). In this instance, external factors were found to affect the application of the resource 'environmental management skill', although the participants did not view environmental management as a resource that could create a CA (Marcus & Anderson, 2006). Another US food retailer study found that ignoring the interdependencies between up and down stream competencies and the external environment affected the overall level of CA achieved (Teng & Cummings, 2002).

2.1. Research Design

The identification of resources meeting Barney's criteria and the separation of their contribution to CA is one of the difficulties associated with research into the RBV. Given the definition of valuable resources shown in Table 1, the logical conclusion is that the very best resources will be the hardest to identify (Fahy, 2000). Furthermore, such resources must also be very difficult to attain in the first place (Miller, 2003a). Also, selection of the correct output variables to measure has also been given little attention to date. Further development of the constructs representing the impact of resources on CA is required for investigation of the RBV (Riahi-Belkaoui, 2003). In addition, the RBV does not adequately consider how organisations establish the resources to create CA (Mathews, 2002). This research has focused on the strategic objectives as outputs and the use of constructs for explaining approaches by which resources are created as inputs.

2.2. RBV Constructs

The following constructs which have been found to have theoretically or empirically apply to Western companies will be examined in the next section in the light of published empirical evidence on the strategy of Chinese companies, both in terms of resource focus and objectives.

1. The benefit or competitive advantage predicted by the RBV should be measurable (Arend, 2006).
2. RBV empirical data should be generalisable (Gibbert, 2006b)
3. Contextual constructs should influence the development of resources (Levitas, 2006).
4. Resources should be treated as an input to advantage to avoid the circular definition of advantage in identifying the resources that created it as valuable (Fahy, 2000).
5. The process of the development of the resources (time compression diseconomies, interconnectedness, scales of mass efficiency, casual ambiguity and the resource development trajectory relative to industry conditions) can affect the value of resources (Fahy, 2000; Mathews, 2002).
6. Management control can affect the customer's perceived value of the competitive advantage the resource creates (Fahy, 2000).
7. Complimentary resources should be integrated with core resources when multiple resources are utilised (Teng & Cummings, 2002).
8. Management, process, regional and scale effects influence the capability for utilising resources to create a CA (Riahi-Belkaoui, 2003).
9. The use of internal development versus external acquisition is a measure of the maturity of resource development (Mathews, 2003).
10. Different resources require different criteria evaluation techniques (Mathews, 2003).
11. Performance differences between organisations can be explained on the basis of asset differences (Conner, 1991).
12. The causal structure of resources influences the CA they create (capability is difficult to copy because it takes time, even if the resource is acquired).
13. Resources can be used to create competitive heterogeneity (Miller, 2003a).

2.3. RBV and Chinese Business Strategies

Almost no empirical published evidence of the business strategies used by Chinese companies operating in foreign markets was identified. Considerable empirical evidence examining the differences between the management styles of Chinese and Western organisations does exist. This literature confirmed that traditionally Eastern and Western companies were divergent in managerial styles (Guillen, 2000; Haley & Haley, 2006a; Haley & Haley, 2006b; Hoffman, 2006; Hoskisson, Eden, Lau & Wright, 2000; Li, Lam & Qian, 2001; Yiu, Bruton & Lu, 2005; Zyglidopoulos & McHardy Reid, 2006). Western Managers micro manage, are slow to respond to changing situations and are dependent on high quality information to make strategic decisions (Haley & Haley, 2006a; Haley & Haley, 2006b). Conversely, Chinese Managers macro manage, which often minimises competitiveness in unexplored, foreign markets (Haley & Haley, 2006a; Haley & Haley, 2006b). In contrast to Western managers, who primarily base decisions and strategies on the business environment, the Chinese adhere to cultural tenets based on Confucianism; keeping face and the development of trust (Acquaah, 2007; Li et al., 2001; Ralston, Gustafson, Cheung & Terpstra, 1993; Zyglidopoulos & McHardy Reid, 2006). This underlying Confucian philosophy was found to lead to success in certain countries where Western organisations and strategic decision making had been unsuccessful (Guillen, 2000; Haley & Haley, 2006a; Haley & Haley, 2006b; Hoskisson et al., 2000; Li et al., 2001; Newbert, 2007; Yiu et al., 2005).

Significant empirical evidence regarding the strategic basis for success in China also exists. For example, 29 of the most successful Chinese and foreign organisations operating in China utilised a convergence of East and Western strategies (Haley & Haley, 2006a; Haley & Haley, 2006b). Their strategies were based around the use of both traditional objective Western and subjective Eastern market-research, data gathering and processing; the building of broad-based, deeply intuitive understandings of their markets, strategic directions and postures; building a core of market experienced managers who provide understanding and open communication between staff and line managers; looking at strategic situations from both a holistic and particularistic viewpoint; and basing strategic and tactical decision making on diverse sources of knowledge.
3. Discussion

The empirical published evidence on strategic management in China will now be considered from the RBV to identify the existence of the RBV constructs shown in Section 2.2. The identified indigenous Chinese business strategies, their objectives and competitive advantage is summarised in Table 2 and compared to the identified RBV constructs in Table 3. The objective was to determine whether these constructs were relevant to Chinese strategic management. When operating in any market, organisations may have equal access to tangible resources such as primary materials, employees and externally developed technology and so relative CA based on these resources is effected only by internal resource management and acquisition practices (Riahi-Belkaoui, 2003). This discussion has been limited to Chinese business strategies that create CA in the Chinese market and which fit Barney’s criteria for CA (Barney, 2001a). This meant they had to create value, be rare in markets other than China and not be easily imitable or substituted. Table 2 shows that these Chinese strategies can be characterised as knowledge, development and alliance strategies. As a resource they may not be unique to China, however, when combined with the underlying Chinese philosophies that direct their facilitation or utilisation, they become a resource unique to China. The literature indicated that they create a CA not been easily imitated or substituted by foreign companies in the Chinese market.

3.1. Knowledge Strategies

A knowledge strategy is used to create information that assists business decision making (see Table 2). Chinese organisations use empirical data to assist decision making in a similar manner to Western organisations. Where they differ from Western organisations is that their analysis is subjective and based on past experience or longevity within a market (Haley & Haley, 2006a; Haley & Haley, 2006b). This technique has worked for them in the past because Chinese consumers have demonstrated brand loyalty based on the Confucian emphasis on the importance of relationships (Bian, 2005). This strategy will not always provide an advantage as its subjective nature does not allow for changing market trends. This may be a major issue in China’s developing economy where consumer expectations are evolving and consumers are developing new relationships with other suppliers of products (Haley & Haley, 2006a).

3.2. Alliances Strategies

Alliance strategies involve the development of relationships to create CA (Zyglidopoulos and McHardy Reid, 2006). Relationships are the main conduits for Confucian tenets - Confucius philosophy states that gratification does not need to be immediate and that relationships are the basis for society and success (Guanxi) (Li et al., 2001). The Chinese depend heavily on relationships and the trust developed by them. To interact with a company you must earn it’s trust and you must maintain that trust (Acquaah, 2007; Bian, 2005; Li et al., 2001; Ralston et al., 1999; Ralston et al., 1993; Yiu et al., 2005; Zyglidopoulos & McHardy Reid, 2006). Trust is regarded so highly that most Chinese companies do not require Western formal contracts because any infringement will result in that company being locked out of all business with its network partners. Relationships and trust create CA through customer loyalty, improved pricing from suppliers, resource sharing within networks/clusters, knowledge acquisition from managerial networks, knowledge preservation through
retention of employees, a commitment to quality (meeting expectations) and corporate social responsibility (Acquaah, 2007; Haley & Haley, 2006a; Haley & Haley, 2006b; Li et al., 2001; Zyglidopoulos & McHardy Reid, 2006).

**Table 2 Summary of Chinese Strategic Approaches, Objectives and Competitive Advantage**

<table>
<thead>
<tr>
<th>Strategic Approach and Type</th>
<th>Objective</th>
<th>Competitive Advantage</th>
<th>Researcher</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subjective analysis of market research based on personal experience and empirical data (knowledge strategy)</td>
<td>Informed Decisions</td>
<td>Products that better meet public demand</td>
<td>(Haley &amp; Haley, 2006a; Haley &amp; Haley, 2006b)</td>
</tr>
<tr>
<td>(Guanxi) Long term relationships with all stakeholders are developed and nurtured (alliance strategy)</td>
<td>Trust and honesty</td>
<td>Stakeholder allegiance</td>
<td>(Acquaah, 2007; Haley &amp; Haley, 2006a; Haley &amp; Haley, 2006b; Li et al., 2001; Zyglidopoulos &amp; McHardy Reid, 2006)</td>
</tr>
<tr>
<td>Engage executives (alliance strategy)</td>
<td>Keep executives committed and focussed on success</td>
<td>Knowledge retention</td>
<td>(Acquaah, 2007; Haley &amp; Haley, 2006a; Haley &amp; Haley, 2006b)</td>
</tr>
<tr>
<td>Develop social networks with executives from other firms (alliance strategy)</td>
<td>Improve knowledge and resource sharing</td>
<td>Reduce costs and improve business processes</td>
<td>(Acquaah, 2007)</td>
</tr>
<tr>
<td>Work with Government on technological advancement (development strategy)</td>
<td>Keep pace with or lead technological advancement</td>
<td>Reduce costs of innovation and maintain Government support</td>
<td>(Bian, 2005)</td>
</tr>
<tr>
<td>Develop Corporate Reputation (alliance strategy)</td>
<td>Create trust</td>
<td>Attract and retain clients</td>
<td>(Zyglidopoulos &amp; McHardy Reid, 2006)</td>
</tr>
<tr>
<td>Corporate Social Responsibility (alliance strategy)</td>
<td>Create trust</td>
<td>Attract and retain clients</td>
<td>(Zyglidopoulos &amp; McHardy Reid, 2006)</td>
</tr>
</tbody>
</table>
Development Strategies

Development strategies create CA through the enhancement of technical resources. The Confucian commitment to long term benefit has stimulated Chinese organisations’ commitment to technological advancement and alliances dedicated to technological advancement. This requires mutual respect, trust and benefit. Results often provide CA in the form of product innovation, cost reductions and improved business processes.

3.3. Comparison with Western Strategies

All these strategies emphasise relationship building, trust, keeping face and not expecting immediate benefit. These tenets would not easily transfer to foreign business environments where competitiveness does not require trust. Even when strategic relationships are built and maintained between Western companies, the use of contracts reinforces low trust level expectations. By comparison, contracts are used in China to set expectations, but are not commitments (Li et al., 2001). Chinese companies rarely to formal legal channels to deal with business issues, as network pressures enforce compliance (Li et al., 2001). Table 3 compares Barney’s RBV constructs with these Chinese business strategies and indicates that most of Barney’s constructs exist within the Chinese strategies. The adoption approach is different, however, as Chinese companies subtly integrate them into organisational decision-making through Confucian personal, social and business approaches as discussed above. These companies do not assert management control to affect customer perception of competitive advantage because they rely on their existing relationships. Performance difference is viewed from the perspective of relationships, history and technological capability which indicates that these organisational capabilities are important contributors to competitive advantage (although inadequate empirical evidence exists to demonstrate their explanatory power relative to resources).

While almost all of these constructs apply to Chinese and Western business strategies, their impact on business performance is quite different. The principal difference is that competitive advantage is generated from resources via different mechanisms and is measured differently. The three constructs that were not evident in the Chinese business strategies all have a capitalistic basis. It could be postulated that these three constructs are absent because of China’s recent emergence from a command economy to a more market-oriented economy. It is also interesting that these actions have not created generalisable RBV data because of the focus on data specific to the chosen environment, which suggests that this construct has cultural dimensions.
Table 3. RBV Constructs Analysis of the Chinese Business Strategies based on Confucian Philosophy against Western Business Strategies

<table>
<thead>
<tr>
<th>RBV Construct</th>
<th>Knowledge Strategy</th>
<th>Alliance Strategy</th>
<th>Development Strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>The benefit or CA predicted by the RBV should be measurable (Arend, 2006)</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>RBV empirical data should be generalisable (Gibbert, 2006a)</td>
<td>×</td>
<td>×</td>
<td>×</td>
</tr>
<tr>
<td>Contextual constructs should influence the development of resources (Levitas, 2006)</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Resources should be treated as an input to advantage to avoid the circular definition of advantage in identifying the resources that created it as valuable (Fahy, 2000).</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>The process of the development of the resources (time compression diseconomies, interconnectedness, scales of mass efficiency, casual ambiguity and the resource development trajectory relative to industry conditions) can affect the value of resources (Fahy, 2000; Mathews, 2002).</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Complimentary resources should be integrated with core resources when multiple resources are utilised (Teng &amp; Cummings, 2002).</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Management, process, regional and scale effects influence the capability for utilising resources to create a CA (Riahi-Belkaoui, 2003).</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>The use of internal development versus external acquisition is a measure of the maturity of resource development (Mathews, 2003).</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>The causal structure of resources influences the CA they create (capability is difficult to copy because it takes time, even if the resource is acquired) (Fahy, 2000; Miller, 2003a).</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Resources can be used to create competitive heterogeneity (Miller, 2003a).</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Management control can affect the customer's perceived value of the competitive advantage the resource creates (Fahy, 2000).</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
<tr>
<td>Different resources require different criteria evaluation techniques (Mathews, 2003).</td>
<td>✓</td>
<td>✓</td>
<td>✓</td>
</tr>
<tr>
<td>Performance differences between organisations can be explained on the basis of asset differences (Conner, 1991).</td>
<td>N/A</td>
<td>N/A</td>
<td>N/A</td>
</tr>
</tbody>
</table>
4. Conclusion

An examination of the literature identified a range of business strategies endemic to China. The Chinese business strategies were categorised as knowledge, alliance or development strategies. It was determined that they created CA, however, Chinese strategic objectives were found to be different to those of Western organisations. Chinese strategic objectives included the Confucian tenets of relationship building, trust, keeping face and not expecting immediate benefit – which was the source of their CA. Using Barnes’ criteria for resources that create CA (value, rarity and not easily imitable or substituted), these strategies were examined to identify how well they met contemporary constructs for the RBV. It was found that most of the RBV constructs applied to the identified Chinese business strategies, except for performance differences based on assets, generalisable data and the use of management control to affect customer perceptions of CA of a resource. The three constructs that were found not to apply to Chinese strategies were also found to be based on capitalistic concepts. These constructs may not exist in the Chinese strategic management approach at present because of the recent emergence of China from a total command to a market economy.

The adoption of Confucian strategic objectives and approach to the strategic management of resources for CA creation cannot be easily imitated by Western companies competing in the Chinese market. Conversely, it is likely that these objectives and strategic resource management approach would not be suitable for Chinese companies operating in foreign markets where trust is not a key feature of the business environment. This observation is partially supported by the fact that, even in China, the most successful organisations used a combination of both East and Western approaches for resource management. This combination of approaches may provide the basis for new RBV constructs and approaches to strategic resource development management for Chinese companies operating in the global market in the future. More empirical RBV research on the strategic development of international operations of Chinese organisations is required.

5. References


