The Purpose of Value: Competitive Advantage and the Issue of Tautology within the Resource-based View of the Firm

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Abstract

Marxian thinking is applied to resolve the allegation of tautology in the resource-based view of the firm, where resources are synonymous with Marx's categories of constant and variable capital. Resolving the allegation naturally leads to the holy grail of resource-based discourse, i.e. the question of what, exactly, constitutes a firm's competitive advantage, at the conceptual level. The article achieves its objectives by applying Marx's concepts use value, value, and the transformation problem; the latter has recently been acquitted of containing logical inconsistencies. The discussion leads to the conclusion that the purpose of organisations is to create commodities of value—whereby value is inseparable from the commodity—, instead of exploiting the self-interest of owners or managers; the latter often leads to conflict of interest in society.

Economy and Organisation; how organisations understand their purposes: create value, tied to, and inseparable from, a commodity; the extent to which this is a serious failure in grasping the significance and nature of organisation; The Limits of Mainstream Economics: Lessons from Organization Theory and Management Theory. Can an understanding of the purposes of organisations, perhaps how they can make distinctive contributions to economy, and their ethical underpinnings, challenge current economic analysis?

Setting the Scene

The holy grail in the field of strategy, and especially in its economically-rooted RBV (resource-based view) of the firm, is the creation of a competitive advantage over rivals. The consistent theme in the resource-based literature (a more detailed discussion is available in, for example, Aharoni, 1993; Hamel and Prahalad, 1994) is the understanding that resources carry a certain value (e.g. Bowman and Faulkner, 1996; Edwards et al., 2004; Sirmon et al., 2007). Therefore, where a firm manages to create value, or more value than its competitors (Peteraf and Barney, 2003), a competitive advantage over rivals can be obtained. In this context, Collis and Montgomery (1995) considered the question of under what circumstances do resources carry value initially, while Rumelt (1984) discussed aspects of preserving this value. Recently, value co-creation is a theme that has been explored (e.g. O'Cass and Ngo, 2011).

The state of play is that competitive advantage is defined, following Peteraf and Barney (2003), 'not in terms of profitability, but in terms of a more

fundamental type of competitive edge.' This seems, at a glance, somewhat surprising, given the importance which profits receive in economics and strategy discourse. In addition, the authors hold that 'critical resources determine value', but do not specify as to how and why, exactly, this is the case. Probing deeper, it is evident that these definitions are a response to Priem and Butler (2001) who have argued that the RBV contains a tautology, in turn leading to the inability to predict firm performance.

Although Peteraf and Barney's response to Priem and Butler seemingly resolved the tautology issue, the response left an unsatisfying situation for two reasons: (i), at the practical level, it raises the question of what, exactly, do we advise firms when helping to create a competitive advantage; and (ii), at the conceptual level, the question remains as to how and why, exactly, do resources determine value? Especially the second question is significant because any attempt to resolve the tautology issue necessitates a probe of the fundamental understanding of economic value and its implications for the RBV. This is so because, if the quest for the holy grail is to be successful, extant approaches in the field are unlikely to bring success (Grahovac and Miller, 2009).

Therefore, the article applies the Marxian concept of economic value, in order to:

- demonstrate that the tautology argument will disappear. This is especially so when it is argued that input capital itself carries value into the production process, as apposed to simply defining the issue away, done in Peteraf and Barney (2003). In addition, in the discussion be-

low, Marx's concept of value will itself undergo scrutiny for a possible tautology. This is done out of necessity, in order to ensure that the concept used to free another of a tautology does not itself contain it.

- establish, following naturally from the acquittal, a conceptual understanding that resolves the question of what competitive advantage is. This, in turn, enables the refinement of the question of predictability within the RBV. By demonstrating that the difficulties to make accurate predictions are not only caused by the tautology, but also draw from the nature of capitalist economies. Out of this discussion the clarification emerges, as to why and how, exactly, 'critical resources determine value' (Peteraf and Barney, 2003).

To achieve these objectives, it is assumed, for reasons of practicality, that Marx's categories of surplus value, constant and variable capital, are consistent with the category of resources within the RBV. This was demonstrated recently, by Bowman and Toms (2010), and so the terms 'capital' and 'resources' will be used interchangeably. However, achieving the objectives would then show the continued significance of Marxian thinking. In particular, the discussion below aims to support the notion that firms should create commodities that customers value, rather than act out of the self-interest of managers or owners which often leads to conflict of interest in society. The discussion now begins with a closer examination of the tautology argument.

The issue of tautology within the RBV

Priem and Butler (2001), by drawing on an argument proposed by Popper

(1959), were the first to point towards the "Tautology in the Resource-Based View . . .". Later, Carter et al. (2008) described the tautology problem such that it is difficult, if not impossible, to recognise critical firm resources (i.e. constant and variable capital in Marx's terminology), independently of the description of them. It can be argued, however, that this problem is quite practical, in the sense that 'just because a determination is made such that xyz is critical does not necessarily make it so'. This should be easily addressed, namely when firms compare their own resource base with that of its competitors.

Nevertheless, this practical problem points to a more substantial question, namely can an *advance* determination—i.e. prediction—be made as to which resources are critical? So far, the RBV has failed to provide a satisfying answer, and Priem and Butler (2001) attribute this problem to the joint occurrence of external (i.e. outside of the firm, within the market or industry) and internal value (i.e. within the firm); in turn, this joint occurrence constitutes the tautology within the RBV.

A closer look at the argument

In essence, a tautology is a logical issue, and Popper (1959, p.122) provides the following illustration:

    p: All orbits of heavenly bodies are circles.
    q: All orbits of planets are circles.

If 'planets' and 'heavenly bodies' are defined in the same way, then the two statements are always true in logical terms. Hence, a tautology exists be-

cause p and q are true, regardless of looking at $p \rightarrow q$, or $q \rightarrow p$. Thus, besides p and q being connected, the defining criterion of a tautology is the *bi-directional* nature of the argument. In contrast, demonstrating the uni-directional, tautology-free, nature of RBV logic is the endeavour of the discussion below. To achieve this, a closer look Priem and Butler's (2001b) original argument is required, which states that:

> "...if valuable resources are defined as those increasing efficiency and/or effectiveness, and competitive advantage is defined as achieving increases in efficiency and/or effectiveness, a tautology exists."

In other words, the concept of the RBV allegedly contains a problematic tautology because of the existence of internal alongside external value. Priem and Butler then proceed to express the tautology statement mathematically, as:

$$Prob\ (CA) = f^{+}(v_{ed} \cap r) \tag{1}$$

where $Prob\ (CA)$ means 'probability of competitive advantage', v_{ed} stands for 'externally determined value', r for 'rarity', and $\cap$ is simply the logical notation of 'and'; f^{+} would be read as 'positive function of', which means that both sides of eq. (1) are positively correlated. This means, in other words, that if the right side of the equation increases, the left side does so as well; conversely, if the right side decreases, so does the left side. To explicitly highlight the tautology, eq. (1) should be rewritten as:

$$Prob\ (CA) \Leftrightarrow f^+(v_{ed} \cap r) \qquad\qquad (2)$$

Priem and Butler then argue that this situation leads to a falsifiability issue, due to which performance predictions cannot be falsified (pp.62f, emphasis added):

> "... when *resource value for some unexplained reason* is present, rarity of that resource is positively associated with the probability of competitive advantage. The [bi-directional] 'joint occurrence' requirement is still there ..."

In their response to this tautology critique of the RBV, Peteraf and Barney (2003) acknowledged the tautology and argue that critical resources are not synonymous with value. Instead, the authors consider that 'critical resources *determine* value', which seems to resolve, at first glance, the issue, as well as the allegation of the existence of 'resource value for some unexplained reason'. Thus, eq. (2) can be rewritten as:

$$Prob\ (v_{ed}) \Leftarrow f^+(R_{crit}) \qquad\qquad (3)$$

where R_{crit} means critical resources. This *seemingly* constitutes a degree of progress from the previous issue because the need for uni-directional thinking is now explicitly acknowledged. In other words, it is now acknowledged that R_{crit} determines $Prob\ (v_{ed})$, yet $Prob\ (v_{ed})$ does *not* determine R_{crit} .

However, it only seems as if progress had been made because this is now a different argument. While Priem and Butler (2001) examined the relation-

ship between resource value and $Prob\,(CA)$, Peteraf and Barney (2003) now consider the relationship between critical resources and $Prob\,(v_{ed})$, alongside reinforcing the notion that critical resources impact on the firm's efficiency and effectiveness. In addition, Peteraf and Barney provide the following definition (p.333):

> "... we define competitive advantage not in terms of a profitability advantage, but in terms of a more fundamental type of competitive edge. The extent of a firm's competitive advantage, in our terms, is an indicator of the firm's potential to best its rivals in terms of rents, profitability, market share, and other outcomes ..."

By so doing, the issue of the tautology now seems to be resolved because the bi-directional joint occurrence, whereby efficiency and effectiveness existed on either side of eq. (2), is no longer present. However, the concept of competitive advantage has now become rather broad and unspecific. This situation is not satisfying because it does not provide any more insights into the relationship between resources, value and competitive advantage. In addition, if making predictions is an important concern within the RBV, then the broad and general notion of 'a more fundamental type of competitive edge' would lead to the question of what, exactly is to be predicted?

There are two likely reasons for this situation. Firstly, the field of the RBV adopted a rather 'watered down' notions of value. For example, value is considered to exist when a firm manages to create more value than the break even competitor (Peteraf and Barney, 2003); this, in Marx's terminology, simply refers to the capture of surplus value, but not all value. Another

example is the concept of value co-creation (e.g. O'Cass and Ngo, 2011), where the meaning of value is not sufficiently specified.

Secondly, the notion of what constitutes a competitive advantage, as well as the relationship of this advantage with value and resources, lacks consistent and coherent conceptual understanding. Therefore, the following sections clarify the notion of value, from which a conceptually grounded understanding of competitive advantage is obtained. In so doing, the idea of mathematical representation from above is used again to propose a conceptual relationship between resources, value and competitive advantage, free of a tautology. This, in turn, follows a call by Grahovac and Miller (2009), who argued that 'a more complete theory of strategy is not attainable by combining extant approaches'.

Thus, attention now turns to acquitting the RBV of containing a tautology. This is done on the basis of Marx's concept of economic value and it is shown that the bi-directional joint occurrence of internal and external value does not exist, and, therefore, does not causing the predictability issue raised by Priem and Butler (2001).

Aligning resources, value and competitive advantage

To acquit the RBV, a theory is needed that does not suffer itself from an inbuilt tautology, and that consistently connects production with exchange. This is the labour theory of value, historically held by classical economists, and especially by Smith (1776) and Ricardo (1817). In essence, they held that economic value contains two aspects: value as such and use value, where

the latter is somewhat akin to, but not quite the same as utility. The crucial difference is that utility is an abstract concept, independent of the physical characteristics of commodities. This essentially allows the customer to consume twice: once physically, and once again in terms of obtaining satisfaction[1] This separation of use value from the physical characteristics is the basis of speculation, whereby satisfaction without an object is traded again and again at the world's stock exchanges, each time at an inflated rate. Eventually, purchasing power is no longer able to support these inflated rates and so the 'law of value asserts itself', which means that the connection with the physical characteristics re-appears, independent of the will of speculators.

In addition, there is value as such, whereby it is important to note that value and price were conceived of as synonymous characteristics of commodities. The synonymous notion led to a fundamental difficulty, which neither Smith nor Ricardo were able to resolve: why does a firm that produces higher values not necessarily bank more profit, given that profit = price (i.e. value) – cost? This question was resolved by Marx (2003), who was then able to explain, by making the labour theory the conceptual basis of internal production and external exchange, as to why a particular new car costs more or less the same in different locations; in addition, he was able to explain as to why the new car has this particular price and not any other.[2] Because of these advantages, and because of the consistent connection of production with exchange, Marx's value theory is used here for acquitting the RBV of

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[1]Many thanks to Alan Freeman for bringing this to my attention.

[2]Although consistently and explicitly distinguishing value and price at the conceptual level was one of Marx's contributions, on the basis of which he was able to resolve a number of riddles, many criticisms of Marx continue to tackle the non-distinction of the classicists.

containing a tautology.

In Capital I, Marx (2005) discussed at length his concept of economic value. In essence, the value of a commodity consists of abstract labour, or the labour time (i.e. amount of human work, the common ground between all types of work) required in production. Specifically (p.54):

> "... the magnitude of the value of any article is the amount of labour time socially necessary for its production"

where 'socially necessary' refers to the average conditions under which commodities are produced. However, Marx (ibid) was rather adamant to stress that not all time expended in production contributes to what is socially necessary. This is so because value is tied to an enabling condition—a condition for value to exist. Specifically, only where there is a buyer does time count towards what is socially necessary, i.e. value: if there is a buyer, then the commodity satisfies a customer need or want. Thus, where such a judgement has been passed, use value exist, which enables the simple labour hours expended in production to become socially necessary labour time. This mechanism is depicted in fig. (1).

where $SNALT$ represents the socially necessary amount of labour time (admittedly, the terminology of 'use value' vs. 'value' is somewhat confusing, yet this is Marx's terminology). The thinking is akin to a permanent magnet, where the magnetic effect (value) only materialises because a north pole (use value) and a south pole (labour hours) already exist. It is important to stress here that there are two uni-directional elements in this argument.

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Figure 1: *Marx's concept of economic value*
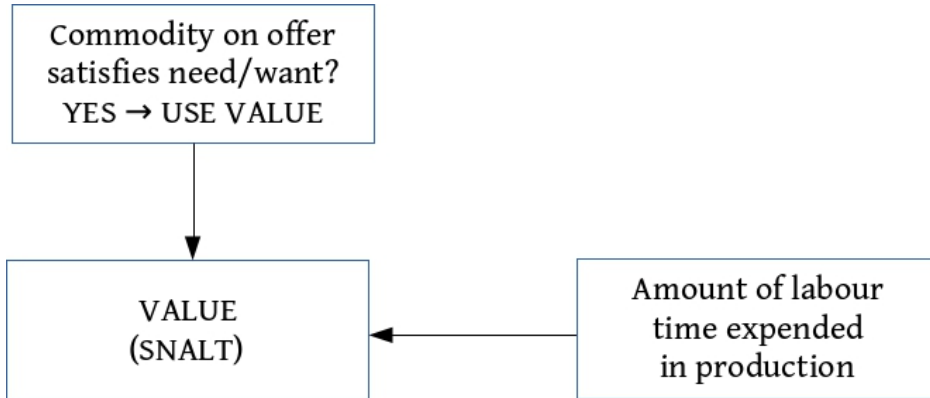
This preclusion is supported by Popper (1968) who, in a critique of Marxian logic, does not raise a tautology issue.[3] However, so as to not jeopardise the objective of the discussion here to acquit the RBV, a more detailed explanation is required which demonstrates that Marx's logic does not itself contain a tautology, as follows.

The firm acts, in the input market, as a customer passing subjective judgement as to whether the firm's needs or wants are satisfied by the offer of constant and variable capital. By way of this judgement the input capital has bestowed on it the label of economic value, making the labour time content part of what is socially necessary; in Marx's terminology, this means that labour time 'coagulates' in the form of value (see also O'Boyle and

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[3]In essence, Popper's critique holds that Marx's dialectic logic violates the law of excluded contradiction. This law of logic establishes that it is impossible for a statement to be true and not true, at the same time. The assumptions, on which this law is based, are: (i) 'not true' captures everything and anything, not just the exact opposite of the statement; and that (ii) 'true' and 'not true' would take each other's places. In contrast, in the dialectic logic, the two sides (i.e. the dialectic opposites) are not the same as 'true' and 'not true', and the opposites do not take each other's places because they remain distinct from one another.

McDonough, 2011), and this is depicted in fig. (1). It should be stressed here that bestowing the label neither creates the labour time content, nor does it change the amount of this content, i.e. the number of hours expended in production. It should also be stressed that bestowing the label occurs in the here and now, not in the past production process, thus precluding the possibility of a tautology; to show this here-and-now-judgement explicitly, the box containing use value in fig. (1) is depicted above the box containing value ($SNALT$), rather than to its left as might be expected. However, the mechanism explains as to why input capital, or firm resources, contain economic value, and this value is not lost simply because the inputs make it onto the farm grounds, through the factory gate, or into the office building. Thus, in line with one of the objectives of this article, Priem and Butler's (2001b) unexplained resource value (above) is now explained.

However, just because input capital contained value does not guarantee that commodities automatically carry this value through to exchange. If this was the case, then the market would not be needed when considering economic value, which would not make sense. Therefore, as soon as commodity production is completed, the jury reconvenes to judge as to whether the output satisfies customer needs or wants; in other words, the output is judged for use value, again in the here and now, as opposed to looking back. If the judgement is unfavourable, then the accumulated labour hours at this point do not count as socially necessary; in other words, the efforts preceding this point are lost. If, in contrast, the judgement is favourable, then the labour time at this point does count as socially necessary, which means that value exists from this point forward, up to the next checkpoint.

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In line with the purpose of this article, the discussion will now look more closely at the importance of use value for establishing a competitive advantage, and this is followed by the same considerations for value.

Use Value and Competitive Advantage. According to Marx (2005), use value is created by concrete labour, or the specifics of human work. In general, this argument captures the differences between banking services, lecturing or car-making; in particular, the finer aspects of concrete labour explain variations in the physical characteristics of, say, two mid-range cars from different manufacturers.

There is one difficulty, however. As was shown by Hamel and Prahalad (1994), customers continually struggle to express as to whether they would judge favourably the physical characteristics of commodities that do not yet exist. This situation makes it difficult for firms to predict use value and it could be argued, therefore, that this is because of another tautology issue. Yet this is not the case because Prahalad and Hamel simply illustrated, in strategy terms, that a commodity must exist before a use value judgement can be passed. On conceptual grounds, Marx (1990) has argued that human thinking is tied to the prerequisite of an object already in existence. This means that another uni-directional argument exists, such that use value stems from the satisfaction of needs and wants being tied to physical characteristics already produced. This is, again, much like with a permanent magnet, where the magnetic effect (use value) is tied to a north pole (the physical characteristics of the commodity) and a south pole (satisfaction of needs and wants), and both poles must exist before the magnetic effect ma-

terialises. Thus, a tautology would exist if it were possible to judge physical characteristics reliably in advance; were this advance judgement is passed nevertheless, the customer makes comparisons to commodities that already exist elsewhere.

However, in terms of a firm seeking competitive advantage, the firm must strive to match physical the characteristics offered with subjective needs and wants, which, as the practise of strategy shows, is a risky undertaking. The difficulty from the perspective of the RBV is, however, that physical mostly explain as to why commodities are bought; physical characteristics do not explain fully as to why customers favour one commodity over another, and this is captured by the commodity fetish (Marx, 2005, ch.4), or firm image in the terminology of the RBV. Thus, if the firm manages this match—perhaps better than competitors—, then the firm has created a competitive advantage. Following the concept of mathematical representation from above, these can be noted as:

$$Prob\ (CA\ \mid\ UV_{ed}) \leftarrow f(pc, img) \tag{4}$$

where the probability of competitive advantage (CA), on the basis of $(\mid)$ externally determined use value (UV_{ed}), is a function of the physical characteristics (pc) of commodities, paired with the image of the firm producing the commodity (img); $\leftarrow$ indicates that the qualitative judgement of use value only works in one direction. In qualitative terms, this mechanism explains as to what, exactly, constitutes Peteraf and Barney's (2003) 'more fundamental type of competitive edge'.

Value and Competitive Advantage. Competitive advantage on the basis of use value alone is not sufficient. Were this the case, then profits and costs would play no part, and this makes no sense in capitalist economies. Therefore, an explanation is required that connects production with exchange on quantitative, i.e. measurable, grounds. In this context,Marx (2003, ch.9) has shown as to how and why the magnitude of values transforms into production prices, on the basis that, quantitatively, aggregate value in an economy equals aggregate price; conceptually, the two continue to differ. This has been labelled 'transformation problem' and was, until recently, one of the most fiercely debated aspects of Marx. This was so because allegations of logical inconsistencies had been raised by Bortkiewicz (1952). These allegations have perpetuated until recently, when Kliman (2007) has shown that the allegations can be refuted by interpreting Marx in a temporal way, that is, inputs are valued in the past, and outputs are valued at present. This interpretation is depicted in fig. (1), above, and captures the spirit of the RBV, where value is created within the firm. Clearly, to create value, some amount of time must first pass, during which an investment must be made ahead of production, and during which commodities are being produced for subsequent sale. The transformation problem is relevant here because it explains, at the conceptual level, as to what, exactly, a competitive advantage is in quantitative terms.

In essence, the transformation problem holds that an average profit materialises in an economy as a whole or, likewise, in an industry (Marx: 'sphere of production'). Marx (2003) dedicates a substantial portion of Capital III to how and why, which can be summarised such that individual firms cre-

ate their own levels of surplus value, which only differ by non-substantial amounts. Thus, an average surplus value materialises, which finds 'material expression' in the form of an average profit. Individual firms have only very limited control over this average (due to the application of science and technology throughout the economy), yet have much more control over their input prices. Thus, the transformation problem is denoted mathematically as:

$$p_p \Leftarrow p_i + \pi_\varnothing \tag{5}$$

with p_p meaning prices of production, p_i prices of input capital, and $\pi_\varnothing$ average profits in the industry under consideration; $\Leftarrow$ indicates the unidirectional nature of the equation. The transformation problem connects, on conceptual as well as quantitative grounds, the realms of production and exchange. In addition, Marx (2003, ch.10) was explicit as to how and why these prices of production differ from market prices (see also Behrens, 1979). Drawing on this difference, and in an attempt to 'translate' Marx into management terminology, Schumpeter (1912) changed 'price' in eq. (5) to 'cost'. Therefore, Schumpeter referred to 'profits as a production cost advantage' over rivals. This means that Marx had entered management theory in an indirect way in 1912. In the context of this article, it is important to note that the mechanism in eq. (5) does not simply refer to the firm's ability to negotiate favourable input prices. In addition, it captures the efficiency aspect of economic activity, whereby higher efficiency leads to lower resource requirements in quantitative terms (given constant or even increasing output).

Thus, input prices are reduced by default, without the need to negotiate favourably.

However, in terms of proposing a conceptual explanation for what competitive advantage is, the key implication of drawing on the transformation problem is that the lower the production price, the *higher* the competitiveness of the individual firm. This is so because competing commodities in the same industry require different amounts of labour time to make. Say commodity A requires X number of hours and commodity B, say, X hours plus 10%. This means, following the transformation problem, that commodity A would have a 10% lower production price which materialises as higher competitiveness or, in other words, competitive advantage, with profits being an integral part of the consideration. Following the mathematical notation so far, this advantage can be denoted as:

$$Prob\ (CA\ \mid\ mV_{id}) \Leftarrow f^-(p_p) \tag{6}$$

with mV_{id} indicating that the magnitude of value (i.e. the amount of labour time) was internally determined. In contrast to eq. (4) where $\leftarrow$ was used to indicate the qualitative judgement of use value, $\Leftarrow$ is used here to indicate a quantitative, i.e. measurable, relationship—in a uni-directional way.

It should also be noted that, although this aspect of competitive advantage is measurable, it is not fully predictable. This is so because individual firms only have limited information regarding the p_p of competitors and so there is only limited knowledge regarding the exact level of $\pi_\varnothing$ in eq. (5), above. Nevertheless, it is possible to determine, with some certainty, that

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firms must strive to lower their prices of production in order to increase competitive advantage; this is represented in eq. (6) by way of f^-. However, it should be recognised that production cost advantages might be short-lived because what is successful will eventually be imitated or substituted; delaying these are a core consideration of the RBV. In quantitative terms, this mechanism explains as to what, exactly, constitutes Peteraf and Barney's (2003) 'more fundamental type of competitive edge', free of a tautology.

Conclusions

Using Marx's concept of economic value, which was applied because other approaches failed, the discussion in this article attempted to acquit the resource-based view of the firm from containing a tautology. Priem and Butler (2001), who argued that the tautology arises because economic value, allegedly, only exists externally. Thus, because value is externally determined, declaring resources as being valuable would mean that value externally as well as internally; thus, it cannot be determined as to which causes which and so the tautology prevents predictions. Using Marx's concept of economic value, it was shown that no tautology exists drawing from the uni-directional nature of the concept, that is, the concept only working in one direction. It should be noted, however, that acquitting the RBV does not facilitate complete predictability. This is so because, as was shown in the analysis above, due to the nature of economic activity, whereby value is subject to future customer judgement, i.e. a judgement whose outcome is not certain at the point of production.

Two conceptual aspects emerged from the discussion. Firstly, the physical characteristics of a commodity, paired with firm image, are an important aspect of competition, in the sense that firms must strive to satisfy customer needs and wants better than competitors. Thus, this strive constitutes an essential qualitative driver of competitive advantage. Hence, eq. (4) was established above. Secondly, a lower labour time expenditure during the firms production process leads to lower value and, in turn, lower prices of production. It was then demonstrated that firms increase their competitiveness if they manage to lower these prices. Thus, this quantitative strive to reduce production prices is another driver of competitive advantage, expressed mathematically in eq. (6).

The discussion leads to the conclusion that the purpose of organisations is to create commodities of value—whereby value is inseparable from the commodity—, instead of exploiting the self-interest of owners or managers. The latter often leads to conflict of interest in society where speculation for financial gains. In contrast, the arguments of aligning resources, value and competitive advantage suggest that conflict of interest situations can be avoided, or minimised at the very least, where value is tied to the physical characteristics of a commodity.

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