The Influence of Penrose: The Power of a Resource-Based Perspective

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The Theory of the Growth of the Firm
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Penrose’s Core Insight

- A firm is:
  “a collection of productive resources”

Penrose, 1959
Key Implication

- The power of a resource-based perspective:

Looking at firms in terms of resources, rather than products, leads to new insights

Wernerfelt, 1984

Some Well Known Examples

- Strategic Factor Markets
  - Look at competition in factor markets rather than product markets to explain long term profitability

- Insights:
  - Long run profits may depend on luck and expectations (Barney, 1986)
  - Long run profits may depend on factor market imperfections, such as path dependency, or lack of a market (Dierickx & Cool, 1989)
Diversification

- Excess resource capacity drives diversification (Penrose, 1959)
  - Multi-product firms have a common resource base

- Insights:
  - Direction & extent of diversification depends on specificity of resources (Montgomery & Wernerfelt, 1988)
  - Related diversification improves profitability when it is based on resource relatedness not product relatedness (Robins & Wiersema, 1995)
    - Explains prior mixed results of studies of relatedness effects

Resource-based Theory

- Rival firms compete on the basis of resources (not just products)

- Insights:
  - Isolating mechanisms prevent the imitation of resources – a counterpart to entry barriers (Rumelt, 1984)
  - Firm performance can be explained by rents to scarce resources (Rumelt, 1987)
  - Resource characteristics can be used to predict sustainable competitive advantage (Barney, 1991)
  - Competitive advantage comes from differential value creation by resources (Peteraf & Barney, 2003)
Substitutes

➢ Think about resource substitutes, not just product substitutes (Peteraf & Bergen, 2003)
  • Resource substitutes are functionally similar – provide services that meet the same need

➢ Insights:
  • Can be used to identify indirect competitors and entry threats – useful in scanning dynamic environments
  • Resource scarcity should be assessed in terms of resource use (functionality) rather than resource type
    • Rareness or uniqueness in type isn’t sufficient for advantage

Capability Lifecycles

➢ Capability lifecycles are the counterpart to product lifecycles (Helfat & Peteraf, 2003)

➢ Insights:
  • Resources and capabilities follow a multi-stage, branching lifecycle path in their evolution
  • The lifecycles of capabilities may extend beyond that of the firms and industries where they originated
  • The capability lifecycle can explain not only in capability heterogeneity, but firm and profitability heterogeneity as well
The General Point

➢ The starting point for each of these studies was to take what had been a *product perspective* and look at it from the *resource side*

➢ In each case, this allowed for new insights

  • Complementary to those that come from the product-based view of the same phenomenon

  • e.g. Porter (1996) suggests strategy rests on unique *activities*

  • Penrose (1959: 25) looks to the *services* of resources
    • “the very word *service* implying a function, an *activity*”

Unexploited Opportunities

➢ Examples:

  • **Product Sequencing** (Helfat & Raubitschek, 2000)
    • *Resource Sequencing* as a Dynamic Capability

  • **Economies of Scale and Scope; MES**
    • Penrose suggested *Economies of Growth*
    • But what would Economies of Scale and Scope look like from a resource perspective?
    • From Wernerfelt (1984):
      • By specifying the size of the firm’s activity in different product markets, it is possible to infer the minimum necessary resource requirements. Conversely, by specifying a resource profile for a firm, it is possible to find the optimal product-market activities
More Opportunities

Are there Resource-based Counterparts to:

- The 5 forces model?
  - Counterpart to product substitutes has been developed (Peteraf & Bergen, 2003; Bergen & Peteraf, 2002)
  - Other forces?
- Product Differentiation and Product Quality Models?
- Generic Strategies?
- New Product Development Models?
- Product Innovation Models?
- Strategic Groups?

Changing the Mindset

We are used to thinking of the firm from the *product* perspective and the *profit* perspective

- The firm serves the needs of *consumers*
  - A product perspective
- The firm produces profits for *shareholders*

Penrose leads us to ask again:

- What is a firm?
- What is its purpose?
A Resource-Based Perspective

A Human Resource-Based View of General Motors:
- What does General Motors produce? What is its purpose?
- It provides a living for its thousands of workers
  - A living in the sense of a livelihood – a means of supporting a life and the lives of one’s family
- It serves the needs of its human resources
  - To be productive, to contribute to society
  - To earn a living

Penrose’s View

From Penrose, Org Studies, 2008
- “In the beginning was the firm and the firm was good.”
- “It was, after all, the family…”

What did the firm do? What was its purpose?
- Whether it produced for its own consumption or for trade, it provided its human resources with a living.

Even now, Penrose makes us think again.