OPPORTUNITIES AND RENTS: THE RELATIONSHIP AMONG ROUTINES, PATH DEPENDENCE, AND SUSTAINED COMPETITIVE ADVANTAGE (INTERACTIVE PAPER)

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INTERACTIVE PAPER

OPPORTUNITIES AND RENTS: THE RELATIONSHIP AMONG ROUTINES, PATH DEPENDENCE, AND SUSTAINED COMPETITIVE ADVANTAGE

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Principal Topic
Resource-based theory’s central assertion is that valuable and costly to copy resources and capabilities that are also heterogeneously distributed across competing firms can be sources of sustained competitive advantage (Barney 1991). Resource-based theorists have also identified several kinds of resources and capabilities that are likely to meet these criteria for generating sustained competitive advantages, e.g., resources and capabilities that are causally ambiguous (Lippman and Rumelt 1982), socially complex (1986; Barney 1991) tacit and intangible (Itami, 19xx), characterized by asset mass efficiencies and time compression diseconomies (Dierickx and Cool 1989) and so forth.

Method
While progress continues in developing and testing resource-based theory assertions, relatively little work examines where these heterogeneously distributed and costly to copy resources come from in the first place. Indeed, most resource-based research takes firm heterogeneity as given and focuses on its implications for firm performance going forward (Barney 1986). Research on where heterogeneous and costly to copy resources come from either attributes their development to luck or superior expectations (Barney, 1986b)—without explaining why some firms are lucky and why some firms have superior expectations—or to path dependent processes shrouded in a firm’s only dimly understood history (Collis, 1991). In this sense, the sources of heterogeneous and costly to copy resources and capabilities for firms remains resource-based theory’s unopened “black box.”

Results and Implications
This paper begins to open this black box. It links two core resource-based concepts—path dependence and the development of resources and capabilities (Barney, 1991) and routines (Nelson and Winter 1982) with entrepreneurship theory (Alvarez and Barney, 2008) concerning the nature of opportunities. In particular, Alvarez and Barney (2008), building on the work of (Aldrich and Kenworthy 1999; Shane 2003; Aldrich and Ruef 2006), identified two types of entrepreneurial opportunities—those created by exogenous shocks to an existing industry or market (called discovery opportunities) and those created endogenously by the actions of entrepreneurs (called creation opportunities). Building on Alvarez and Parker (2009), this paper develops a Bayesian learning model of the path dependent process by which firms build routines during exploitation process. Routines developed in discovery settings are less likely to have attributes required for sustained competitive advantage, whereas routines developed in creation settings are more likely to have these attributes. The model suggests an important source of the heterogeneous and costly to copy resources and capabilities controlled by a firm may be the types of opportunities that firms are formed to exploit.

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