STRATEGY SCHOOLS

Resource-Based and Dynamic Capabilities

Barney · Wernerfelt · Teece · Prahalad & Hamel

PAPER 02 / 04

A Furtherance reference compendium on the intellectual traditions behind organisational design, leadership, execution, and culture.

> **IN THIS PAPER**
> If position sets the ceiling, what a firm *is* sets whether it can reach it. This paper covers the resource-based view and its dynamic successor – advantage located inside the firm. The question it answers: which internal resources and capabilities produce advantage that rivals cannot copy, and how is it sustained under change?

Wernerfelt founds the resource view; Barney formalises the test for advantage-creating resources; Prahalad and Hamel reframe the firm as a portfolio of competencies; Teece answers the static critique with dynamic capabilities – the capacity to keep reconfiguring.

Birger Wernerfelt **A Resource-Based View of the Firm, 1984**

Strategy · the founding resource view

CORE THESIS

Analyse a firm by its **resources**, not just its products – they are "two sides of the same coin". Just as entry barriers protect product positions, **resource-position barriers** protect the firms that hold scarce, valuable resources.

FRAMEWORK

Idea	Meaning
Resources over products	Competitive analysis starts from what the firm holds
Resource-position barriers	Holding a resource first deters others
Resource-product matrix	Map which resources serve which product markets

METHODOLOGY

A seminal conceptual paper that launched the resource-based view.

SIGNIFICANCE AND CRITIQUE

The origin of the resource-based view, predating its later formalisation. The critique: the early statement is schematic, and was slow to gain traction.

Jay Barney **Firm Resources and Sustained Advantage, 1991**

Strategy · the VRIN / VRIO test

CORE THESIS

Sustained competitive advantage comes from resources that are **valuable, rare, inimitable and non-substitutable** (VRIN; later VRIO, adding *organised to capture value*). Because such resources are unevenly distributed and hard to move, advantage is internal, not merely positional.

FRAMEWORK

Test	The resource must be…
Valuable	Able to exploit opportunity or neutralise threat
Rare	Not widely held by competitors
Inimitable	Costly to copy (history, ambiguity, complexity)
Organised	Structured so the firm can actually capture the value

METHODOLOGY
Strategy theory building on resource heterogeneity and immobility.

SIGNIFICANCE AND CRITIQUE
The dominant internal theory of advantage, and VRIO is a standard analytic test. The critique: it risks tautology — “valuable resources create value” — and is relatively static, which is precisely what dynamic capabilities set out to fix.

Prahalad & Hamel The Core Competence of the Corporation, 1990

Strategy · competencies and intent

CORE THESIS
Competitiveness derives from **core competencies** — the collective learning and skills that provide access to many markets, contribute to customer benefit, and are hard to imitate. The firm is best seen as a **portfolio of competencies**, not just a portfolio of businesses, marshalled by **strategic intent**.

FRAMEWORK

Test of a core competence	Meaning
Access to markets	It opens doors to a range of products
Customer benefit	It contributes to perceived value
Hard to imitate	It is a complex weave of skills and technologies
Strategic intent	An ambitious goal that stretches and leverages resources

METHODOLOGY
A practitioner-facing strategy argument, illustrated through global competitors of the era.

SIGNIFICANCE AND CRITIQUE
Reframed diversified firms around competencies and popularised strategic intent and stretch. The critique: core competencies are hard to identify in advance, and the concept can be used to rationalise almost anything after the fact.

David Teece Dynamic Capabilities, 1997–

Strategy and innovation · UC Berkeley

CORE THESIS

In changing environments, holding good resources is not enough. Firms need **dynamic capabilities** – the higher-order capacity to **sense** opportunities and threats, **seize** them, and **transform** the resource base – to renew advantage over time.

FRAMEWORK

Dynamic capability	What it involves
Sensing	Scanning, interpreting and spotting opportunity and threat
Seizing	Committing resources and business models to the opportunity
Transforming	Reconfiguring assets and structures as conditions shift

Teece distinguishes **ordinary** capabilities (doing things well) from **dynamic** ones (changing what you do), and ties advantage to appropriability and complementary assets.

METHODOLOGY

Strategy and the economics of innovation, with attention to microfoundations.

SIGNIFICANCE AND CRITIQUE

The leading account of how advantage persists under change, and the answer to the resource-based view's static critique. The critique: the construct is abstract and notoriously hard to measure and operationalise.

Synthesis

Theorist	Contribution	Key idea	Critique
Wernerfelt	Founding view	Resources over products	Schematic
Barney	The test	VRIN / VRIO	Tautology risk; static
Prahalad & Hamel	Competencies	Core competence; intent	Hard to identify ex ante
Teece	Dynamic version	Sense, seize, transform	Abstract; hard to measure

FOR THE OPERATOR

The resource-based turn locates advantage inside the firm – the founding resource view (Wernerfelt), the VRIO test for advantage-creating resources (Barney), the core competencies that span markets (Prahalad & Hamel), and the dynamic capabilities to keep reconfiguring them (Teece). For the operator: advantage is what you have and can do that rivals cannot easily copy – and, above all, the capability to keep renewing it. But strategy is not only analysis; the next paper shows it also emerges, is sensed, and is diagnosed.