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**The Resource-Based View of the Firm and the
Labour Theory of Value**

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**This paper is circulated for discussion purposes only and its contents should be
considered preliminary.**

Abstract

The Resource-Based View of the Firm and the Labour Theory of Value

The paper argues that the principal components of the Resource-based view (R-BV) of the firm are not a sufficient basis for a complete and consistent theory of firm behaviour. Two important missing elements are governance arrangements and value theory. Whilst these missing elements have been acknowledged separately in the literature, their complementary interaction with the commonly accepted components of the R-BV has yet to be fully explored. This paper argues that there are significant opportunities to develop a more integrated approach, thereby uniting substantial strands of the strategy and economics literatures to produce a unified view of strategy and move towards a resource based *theory* of the firm. Specifically the paper argues for the inclusion of labour process theory, asymmetric information and the analysis of risk and the classical labour theory of value. The combination of these elements shows that a resource-based theory must unite the process and content elements of strategy, through the simultaneous interaction of labour management processes, the determinants of sustained competitive advantage (SCA), and relations with capital markets.

The argument presented shows how value originates in the productive process and is transmitted as rents to organizational and capital market constituents. The detailed assumptions are sufficient to suggest an integrated resource-based theory of corporate strategy. The principal assertion in the paper is not that the labour theory of value is true per se, only that it is at least as good as competing theories, but that only if it is assumed to be true can we progress to construct a consistent resource-based theory of the firm. Without these links to the labour theory of value and labour process theory, and mechanisms of corporate governance, the R-BV remains merely a

view and not a theory, because it lacks a consistent basis for asset valuation. The theory also explains that the roots of SCA lie in the labour process, but with the corollary that maximizing the associated investment in tacit knowledge and associated difficult to replicate assets is fundamentally inconsistent with the objective of maximizing shareholder value.

Key words: Resource-based view, labour process theory, theory of value, governance, information asymmetry

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Introduction

Strategy lacks a consistent definition (Bracker, 1980, Mintzberg and Quinn, 1991, p.3, Hendry, 2000), draws on a number of super-ordinate (eg economics and sociology) and specialist disciplines (eg marketing, HRM), and takes on approaches based on process and content. In view of these competing and possibly divergent tendencies, is an integrated theory of strategy possible? A particularly important recent development, from the perspective of this paper because it provides a possible vehicle for producing an integrated theory of strategy, is the resource-based view (R-BV). As in other areas of strategy research, however, it is unclear whether strategy scholars themselves agree on the R-BV's basic issues and premises (Hoopes et al, 2003).

More specifically, there has been much recent debate on the question of whether or not the R-BV requires a theory of value. According to the R-BV, organizations are bundles of resources (Amit and Schoemaker, 1993; Rumelt, 1984), which are valuable, rare, imperfectly imitable and imperfectly substitutable (Barney, 1991). That said, despite much conceptual research effort, participants in the debate have yet to reach a consensus on the circumstances of where, why and when a resource is valuable (Miller and Shamsie, 1996, p.539). According to Makadok (2001) and Makadok and Coff, 2002) several resource-based theorists, such as Barney (1986), Peteraf (1993), and Collis and Montgomery (1995) offer explanations of resource value. Bowman and Ambrosini (2000) suggest these explanations are insufficient and set out a framework incorporating value creation and value capture. Priem (2001) argues that existing theories deal only with the value capture element

but do not explain how value is created in the first place. For Makadok and Coff, (2002) R-BV works with value capture but does not need a theory of value creation, especially not a theory based on consumer utility.

The fundamental reason for the diverse views and apparent impasse, as outlined in this paper, is that to understand value there is a requirement to integrate ownership, information asymmetry and the effectiveness or otherwise of governance mechanisms designed to enforce ownership claims, into the R-BV. As Makadok (2003) suggests, future research on the genesis of competitive advantage should examine agency and governance issues along with, not apart from, resource-based issues. This paper goes further suggesting resources and governance must also be considered along with a consistent theory of value. Such integration completes the theory, and also therefore illustrates the underlying link between resource value and SCA.

The remainder of the paper proceeds as follows. Section two below provides a brief summary of the relationship between the R-BV and other theoretical perspectives that rely on notions of value. A subsequent section presents an integrated model illustrating proposed relationships between the principal theoretical components. A final section draws conclusions.

The relationship between RBV and other theoretical perspectives

Where the R-BV literature has dealt with the question of value, it has done so under three broad headings. These are the utility approach, examined primarily from the perspective of the customer, stakeholder theory, sometimes conflated with utility theory, and finally and most importantly from the point of view of the current paper, approaches that link asset value to intra-organizational processes. The latter, as argued

below, present an opportunity to link R-BV with modern theories of governance and classical economic theories of value, thereby advancing an integrated theory of strategy. First, each of the three approaches are discussed in turn to show why only labour based approaches offer the opportunity for an integrated theory.

Economic theory and utility

In contrast to economic theory, which explains performance differentials in terms of product and market structure, the R-BV focuses on the internal characteristics of the firm (Lockett and Thompson, 2001). In the search for an associated theory of value, however, many researchers argue that the R-BV implies resource value depends upon relationships with a specific market environment (Amit and Schoemaker, 1993). Similarly Barney (1991, p.105) suggests that a resource is valuable to the extent that 'it exploits opportunities and/or neutralizes threats in a firm's environment'. A connected argument is that resources are valuable if they enable a firm to satisfy needs at lower costs than competitors (Barney, 1986; Peteraf, 1993). Barney (1991, p. 106) also suggests that resources are valuable 'when they enable a firm to conceive of or implement strategies that improve its efficiency and effectiveness'. Elsewhere a resource has been defined as valuable if it enables customer needs to be better satisfied (Bogner and Thomas, 1994; Verdin and Williamson, 1994). Conner (1991, p. 132) summarizes these strands pointing out that, from a resource-based perspective 'obtaining [above normal] returns requires either that (a) the firm's product be distinctive in the eyes of buyers (e.g. the firm's product must offer to consumers a dissimilar and attractive attribute/price relationship in comparison to substitutes), or (b) that the firm selling an identical product in comparison to competitors must have a low cost position'.

The principal weakness of these approaches is that value depends upon a definition of customer needs (including, tautologically, access to low priced goods) and in any case it is difficult to see how consumers having wants differs from standard utility theory. As Priem (2001) therefore suggests, the R-BV is therefore incomplete because its explanation of value must be imported from the literature of other fields. There is also the more fundamental question of whether utility in any case constitutes the basis for a theory of value. It has been dismissed as a tautology by some prominent economists (Robinson, 1963), and more importantly refuted as a theory of capital value and the rate of profit (Harcourt, 1969). Neo-classical economics has ignored rather than responded to these fundamental criticisms (Tinker, 1980), and any attempt to develop a resource based theory of the firm on neo-classical foundations necessarily faces the same problem, not least because capital values and profit rates are central to the R-BV approach.

Stakeholder theory and value

An alternative approach that side-steps rather than addresses the weaknesses of utility theory is the stakeholder approach. Where the stakeholder approach is used, definitions of value are still predicated on notions of utility. For example Collis and Montgomery (1997, pp.30–31) argue that a resource is valuable when demanded by customers, when it cannot be replicated by competition, and when the profits it generates are *captured by the firm* (emphasis added). This is notwithstanding problems associated with customer utility measurement referred to above, but more importantly, the stakeholder approach raises the question of what in this context is the firm? When the idea of the firm is reified in this fashion and use value is wrapped up in the notion of customer utility, important gaps reappear in the R-BV. First, where a

resource cannot be replicated by purchase in an outside market, the implication is that unrealized value has been transferred into that asset in the process of its production. But how appropriate is it now to value these unrealized assets with reference to the utility of the ultimate consumer? Second, the suggestion of appropriation qua value capture requires the removal of the reified firm and its replacement with stakeholders. Once this substitution occurs, a third question now arises, who captures the profits and how are they valued? Coff (1999) addresses this question with the notion of 'nexus rents', according to which some of the value of superior performance is appropriated by competing stakeholder groups. Such stakeholders earn quasi-rents when a factor has a higher marginal product than is required to hold it in place (Klein et al. 1978). Although this explains rent distribution it does not directly address the question of value creation. If utility is still relied upon, the effect of the stakeholder model is simply to multiply the number of utility functions according to the needs of different stakeholder groups. Managers, customers, employees etc, have different utility functions, and any residual return must still be valued according to the shareholder's utility function. In this model, rents and one assumes value, are determined by market processes and do not arise from the productive process, although Coff's (1999) contribution importantly highlights the role that monitoring relationships must play. To summarize these problems, the R-BV requires a theory of value that is independent of utility, or must specify a stakeholder group whose utility is to take precedence.

If for whatever reason we choose the shareholders, the problem is essentially to select a valuation mechanism for the profit streams earned by the firm's resources. These profit streams can be capitalized if we can assume a discount rate consistent with the risk/return utility function of an investor. However, such an assumption

presupposes that value is created or captured according to the subjective attitudes of investors.

Organizational processes and theories of value

The final approach, and the one adopted in the ensuing analysis, is to argue that value is created from processes within the organization. According to this view, the value creation process creates useful outputs or use values, where new use value derives from the actions of people in the organization working on and with procured use values (Lado and Wilson, 1994; Pfeffer, 1995; Wright et al., 1994). Such an approach is consistent with Penrose (1959), and more recently Tsoukas (1996) and by Grant (1996), with their emphasis on managerial integration of knowledge. These approaches are consistent with classical economics and value theory, but few authors have made this connection in recent debates. An exception is the use-value, exchange value split suggested by Bowman and Ambrosini (2000, p.2), generally attributed to the ‘classical economists’.

Although many researchers agree that value is generated from inside the firm there is disagreement as to its precise origins. Most explanations involve the notion of tacit knowledge but differences arise from difficulties associated with the definition of the term (Ambrosini and Bowman, 2001). Tacit knowledge therefore creates value for example as an unplanned side effect of corporate behaviour through spontaneous co-operation (Mueller, 1996), the ability to isolate tacit attributes of organizational routines (Knott, 2004), or as a set of skills (Ambrosini and Bowman, 2001). Ambrosini and Bowman’s approach is particularly useful because it is founded on Polanyi’s (1966) explanation of scientific knowledge beginning with tacit knowledge and tacit knowledge as prior to explicit knowledge. This view is also consistent with

location of tacit knowledge in the context specific (Nonaka, 1991) and describes a process (Ambrosini and Bowman, 2001, p.813).

Finally, as explained in the next section, these approaches are consistent with the labour theory of value. The emphasis is on consistency, rather than verification. It is beyond the scope of this paper and all the others reviewed above to demonstrate the conclusive truth of one value theory or another. In common to all is their requirement to make some assumption or other about the nature and origins of value. What the discussion has shown is that the labour-based approach is of some merit in itself and that this is sustained when weighed against competing approaches. At this stage only if the labour theory of value is assumed to be true can we progress to construct a consistent resource-based theory of the firm.

Knowledge, Value, and Appropriation: An Integrated Model

Although the labour theory of value (LTV) has a long pedigree, dating back to Smith, Ricardo and Marx, its espousal by Marx in particular suggests an unlikely starting point for a discipline concerned at least in part with the determinants and attributes of successful behaviour within the confines of the capitalist system. Marx's categorical extensions of Smith and Ricardo, for example use value, have been used sparingly in the debates on R-BV and value, and without much reference to classical economics (as an exception, see Bowman, 2003). There is also the view that LTV has been discredited because Marx was unable to use the theory to explain why rates of profit should equalize across sectors through market processes (the transformation of value into price). Technical solutions to this problem have been suggested (Bortkiewicz, 1949), but the residual problems also apply to neo-classical theories of value (Harcourt, 1969). From the perspective of this paper, the crucial residual problem is

that the difference between the use value arising from the mental and physical effort applied in the labour process and the market price of labour is unobservable at the level of the individual firm. This point is addressed in the model explained below.

Another reason perhaps is that the use of Marx's categories themselves leads to further debate. For example, there is disagreement amongst Marxist scholars as to whether Marx indeed did advocate the LTV (Rowlinson and Hassard, 2001, pp.86-88). Hence there are differing interpretations as to whether labour power and its deployment in the productive process can form the basis of value. Bryer (1999) argues that labour, and particularly socially necessary labour, is the basis of asset valuations. Tinker, (1999, p.655) on the other hand suggests that Marx's economic categories such as profit, wages and rents should be seen as socially relative phenomena. Whilst recognising these and other potential objections, the implications of Bryer's argument for the R-BV are clear. If there is a fundamental link between socially necessary labour and asset values in a modern accounting system, as Bryer suggests, then this link also explains the underlying relationship between asset values and rates of return, and hence SCA.

That said, to explain observed rates of return and differences between firms in the same industry and with similar asset bases, it is also necessary, in parallel with Coff's (1999) model, to consider the possibility of rent transfer between stakeholder groups. Marx uses Ricardo's definition of differential rent as 'the difference between the produce obtained by the employment of two equal quantities of labour and capital' (Marx, 1984, p.649). This notion of rent can be applied specifically to circumstances where knowledge is unevenly distributed within firms and between firms and their investors. Rents might therefore accrue to firm insiders or financial market insiders based on access to superior information. Realized returns accruing to shareholders in

a financial market therefore reflect both the underlying rate of profit plus or minus realizable managerial and labour rents.ⁱ

According to the labour theory of value, labour markets trade in labour time rather than actual work done, including any tacit knowledge elements. The problem for management is supervising what is done with that time and this problem intensifies to the extent that subordinates hold tacit knowledge. Tacit knowledge reflects value in use rather than market exchange value and employees hold their positions precisely because the perceived value of their tacit and other knowledge exceeds their market cost. In R-BV terms, the firm that employs such individuals has a basis for SCA because a competing firm cannot replicate the asset base through straightforward market exchange processes.

The most important assumption, in line with the organizational processes strand of the literature reviewed above, is that the real source of value lies within the productive process. Because commodities are systematically sold at higher prices on leaving the productive process in comparison to the prices at which they enter it, there must be some commodity within the process that adds value systematically. Without this condition aggregate profits are zero and the economy is a zero sum game. At the same time, as noted above, labour time is priced in the market, but labour power is not. Specifically therefore labour time is transferred to the product with a degree of intensity that is a function of both physical effort and mental processes. As long as the labour process is defined to include both mental and physical processes, this view is consistent with Schumpeter's (1934) argument that value and abnormal profits arise from innovation. Insofar as the value created from such mental and physical activities is greater than the market value of labour time, the firm has an incentive to retain the

employees whose individual or collective efforts generate the value. At the same time the firm has the basis for making abnormal returns and therefore SCA.

From an R-BV perspective, physical effort and readily quantifiable skills are the resources most easily replicable. Such explicit skills are those more easily generated through generic training and education processes external to the firm. As labour processes become more deeply ingrained as tacit skills, they become more difficult to replicate. Ambrosini and Bowman (2001, p. 816) suggest that this gives rise to a continuum with explicit and deeply ingrained skills at either end. Figure 1 uses this continuum to include tacit knowledge as a starting point, but extends the analysis to include the important additional questions of valorization, accountability and governance.

Figure 1 about here

As suggested in figure 1, there is also a continuous relationship between the degree of tacitness in the labour process and the ability of external stakeholders to monitor the separable labour processes that make up the firm and their joint interactions. This follows from the definition of tacit knowledge, because the process is less readily explainable and understood by an outsider and is consistent with the R-BV, tacit knowledge is implicated in SCA. Therefore as tacit knowledge and potential degree of SCA rises under R-BV assumptions, the monitoring costs for external stakeholders rise. So the more tacit labour processes create assets that are unique and valuable, the more likely it becomes that resulting excess profits will be appropriated by insiders at the expense of external capital providers.

There are several interesting corollaries arising from these relationships that are worth mentioning. First there is a conflict between the managerial objective of achieving SCA and the objective of maximizing shareholder value. Managers pursue rents rather than optimal growth (Rugman, and Verbeke, 2004) and these rents arise from their role in the labour process, as supervisors and participants. If firms are identified as having achieved competitive advantage by reference to accounting ratios corresponding to superior performance from a shareholder perspective (eg Peters and Waterman, 1982), it is likely that such performance is based on explicit and easily replicable skills and that associated competitive advantage is short-term or illusory. This view also contrasts with Penrose's view that firms and their managers are essentially profit-orientated, and that managerial opportunism and the agency problem constitute only a special case (Lockett and Thompson, 2004).

A second and related point is that monitoring costs in figure 1 also lie on a continuum suggesting that as the degree of tacitness rises, the probability of surplus appropriation by those closest to the labour process also rises. In other words the monitoring problem is not simply confined to the providers of external capital but is also faced directly by the line managers at each hierarchical level above the labour process. Line managers have the incentive to externalize tacit knowledge embedded in labour processes for which they are responsible, for example through the division of labour, or spend organizational resources themselves on monitoring, so that rents accrue at their level of the hierarchy. Insofar as line management itself is part of the labour process, for example where managerial action alters the product, further tacit knowledge arises and monitoring costs are imposed from above on progressively senior levels of management. Ultimately the imposition comes from the capital

market to the top of the hierarchy, creating a similar but separate set of monitoring issues discussed below.

A third corollary is that under these assumptions the R-BV is consistent with labour process theory (LPT). R-BV and LPT are from divergent backgrounds within the strategic management literature, reflecting context and process based approaches respectively. To clarify this consistency, it is necessary to evaluate the assumptions from the labour process perspective. The most important consideration for labour process theorists (Knights, 1990, Wilmott, 1990) is the role of power rather than profit, and their consequent rejection of Marx's value categories explains the divergence between LPT and the LTV (Rowlinson and Hassard, 2001, p.90). However, the model in figure 1 offers a reconciliation. As figure 1 suggests, because labour rent originates in the productive process, the labour process must include a valorization stage. As Bryer (2004) has pointed out, valorization has been neglected in the labour process literature. In terms of labour time, capital comprises accumulated dead labour plus the living labour time, at whatever intensity, transferred into output through the labour process. Capital can be conceptualized in labour hours without reference to valorization, but the valorization process is nonetheless the crucial link underpinning the relationship between tacit knowledge and monitoring costs. Precise valorization is the outcome of two elements, realization into monetary or exchange value through capital circulation (Marx, 1976, p.992-7) and the effectiveness or otherwise of supervisory arrangements to moderate the effects of information asymmetry. Asymmetry arises because workers sell but retain control over their 'labour power', defined by Marx as those physical and *mental* capabilities, which the worker sets in motion whenever he produces a use-value (1976, p.271).

These assumptions are consistent with classical value theory and specifically with Marx, if the labour process is treated as part of the productive forces (Marx, 1976, pp.285-290), which also incorporate knowledge assets, for example scientific expertise where applied using technology (Marx, 1974, pp.540, 699, 706). Meanwhile the labour process leads to inventiveness on the one hand through the imagination of individual labourers at the outset of the labour process (Marx, 1976, pp.284) and alienation through the process of specialization on the other. To the extent that inventiveness and knowledge can be privately appropriated, the labour process itself becomes a risky set of activities for administering managers and outside financial stakeholders.

Arising from these risks, a fourth implication is the impact on capital market participants such as individual shareholders and investment managers. As suggested above, realization through capital circulation is assumed to be part of the valorization process. At the top end of the continuum where all knowledge is tacit, it is impossible for the investor to understand the processes whereby use values are transformed into exchange values through realization and thereby generated into profits. Even so where there is some degree of capital dependence, for example in high growth sector firms, insiders will have an incentive to reserve some profit and signal its availability to outside investors instead of appropriating it for themselves. Insofar as the labour process within one firm is unrelated to those governing the profits of the average firm, which include many explicit processes, the variation in profit will appear random and therefore as 'noise'. Such randomness corresponds to the firm-specific risk. In the limiting case where all knowledge is tacit, all share prices become random. Under such conditions share prices would convey no information to investors (Grossman and Stiglitz, 1980). In the opposite case where all knowledge is explicit, information is

symmetrical and markets become thin, as there are no abnormal returns (rents) and there is no incentive to trade (Grossman and Stiglitz, 1980). Also under these conditions with R-BV assumptions all firms possess the same easily imitable resources for the same activities and there is no SCA.

The interactions between tacit knowledge and monitoring costs are suggestive of some interesting contradictions within the corporate economy. Alienation, through excessive specialization and associated removal of intellectual content, is traditionally viewed as a source of exploitation by unscrupulous profit maximizing capitalists. In fact, in industries where such exploitation might occur, such as cotton textiles in the British industrial revolution or in modern China, although aggregate profit rates may be high, there is no basis for SCA at the level of any individual firm. In contrast, where the labour process has significant intellectual content, thereby creating entry barriers for competitors, the accrued profit to the individual maximizing capitalist may be still small and the rents accrued by intermediate producers and market-makers large, due to increased monitoring problems.ⁱⁱ In short, because rent is the difference between realized price and underlying value, if labour is the source of value, information asymmetry is the source of rent.

Figure 2 about here

Figure 2 shows how these trade offs within a resource-based theory framework explain the observed level of profit and shows when and how observed abnormal profits are associated with SCA. Coff's (1999, figure 1) model provides examples of these trade-offs locating rents specifically in stakeholder bargaining power, asset specificity and team complexity. Figure 2 shows the general case that

follows from the above discussion, in which profits and SCA are explained jointly by the possession of VRIN assets in the resource base and the process of rent capture. The framework is derived from value theory and shows rent capture to be in direct and dynamic contradiction with the firm's asset base. In the top row of the table, consistent with the R-BV, firms achieve SCA through their extensive VRIN asset base. However, observable profits differ, so that where external monitoring and accountability is effective the profits from SCA are above normal levels and accrue to external stakeholders (quadrant 1). Where monitoring and accountability are ineffective, rents accrue to insiders (quadrant 2). Reported profits will be normal, since insiders will report and distribute the level of profit required to minimal satisfy investors and prevent them exiting their investment and remaining surplus will be consumed as rents by the insiders. On the bottom row, there are no VRIN assets and therefore there is no basis for SCA. Because there are no VRIN assets, rent appropriation by insiders is also ruled out. Profits are therefore normal in both quadrants 3 and 4. In quadrant 4, losses (ie less than normal profits) are possible if managers seek to appropriate rents and are not well monitored, but only in the very short-run. Because there are no VRIN knowledge assets, the normal rate of profit is well known and therefore deviations below the rate are easy to police. Insofar as SCA and abnormal profits only occur consistently in quadrant 1, governance arrangements can be seen as contributing to observable competitive advantage. Of course even here the trade-offs referred to in figure 1 still apply, so that increased investment in VRIN assets also increases monitoring costs. Therefore abnormal profits and SCA are only concurrent where governance mechanisms are effective. An example might be to recruit outside directors with sufficient independence from the main board but who at the same time possess the firm of sector-specific expertise required to monitor

knowledge based assets. However, in the general case, the availability of such directors suggests inter-firm knowledge sharing which is in itself inconsistent with SCA.

In view of these difficulties, there are relatively few devices available to ensure that the firm operates in quadrant 1. One further possibility is the use of ideology, and notions such as 'shareholder wealth maximization' and shareholder value. Arguably, such notions might be more easily shared between outside investors and the firm's top management. They might therefore employ them to mitigate apparently selfish utilization of tacit knowledge, which would otherwise consume wealth within the organization. Their effect is limited by their contradictory appeal to the selfish interests of another group, ie the shareholders, and because normal, rather than abnormal, profits are a sufficient basis for the survival of the firm.

These trade-offs explain why capitalism is a dynamic system operating within social and technically determined limits. There is an incentive to invest in knowledge assets insofar as the marginal product is positive net of monitoring costs. Because tacitness can rise to the point of total opacity there is an upward limit on the level of investment. Similarly there is a downward limit to alienation, since if all processes are explicit, although monitoring costs are zero, individual firms cannot achieve competitive advantage under R-BV assumptions.ⁱⁱⁱ The realized rate of profit for the firm depends on the interaction of these contradictions, but is unrelated to the competence or otherwise of the firm's management, who, where rational will appropriate surpluses privately. The rate of surplus accruing to individual workers and managers depends on the possession of knowledge and the monitoring cost.

Conclusion

The argument presented above has accepted the main assumptions of the context based R-BV. It has shown that by also accepting a common premise, consistent with much of the organizational theory literature and classical economics, that labour is the source of value, the R-BV is also consistent with process approaches to strategy including labour process theory. It has shown how value originates in the productive process and is transmitted as rents to organizational and capital market constituents. These assumptions are sufficient to suggest an integrated resource based theory of corporate strategy. Without the links, advocated above, to the labour theory of value and labour process theory, and mechanisms of corporate governance, the R-BV remains merely a view and not a theory, because it lacks a consistent basis for asset valuation. The theory also explains that the roots of competitive advantage lie in the labour process, but with the corollary that maximizing the associated investment in tacit knowledge and associated difficult to replicate assets is fundamentally inconsistent with maximizing the value of shareholder's investments.

In summary, the R-BV is either not a theory, or if it is, it must reject the *a priori* assumptions of profit and utility maximization and that have underpinned neo-classical economics for the last 150 years. Instead the underlying source of value in the labour process must be recognised and competitive advantage seen as the outcome of the unequal division of surplus between the creators and appropriators of value. If the R-BV is a theory, it is a classical, not a neo-classical theory of the firm.

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Figure 1: Degree of tacitness and the distribution of surplus

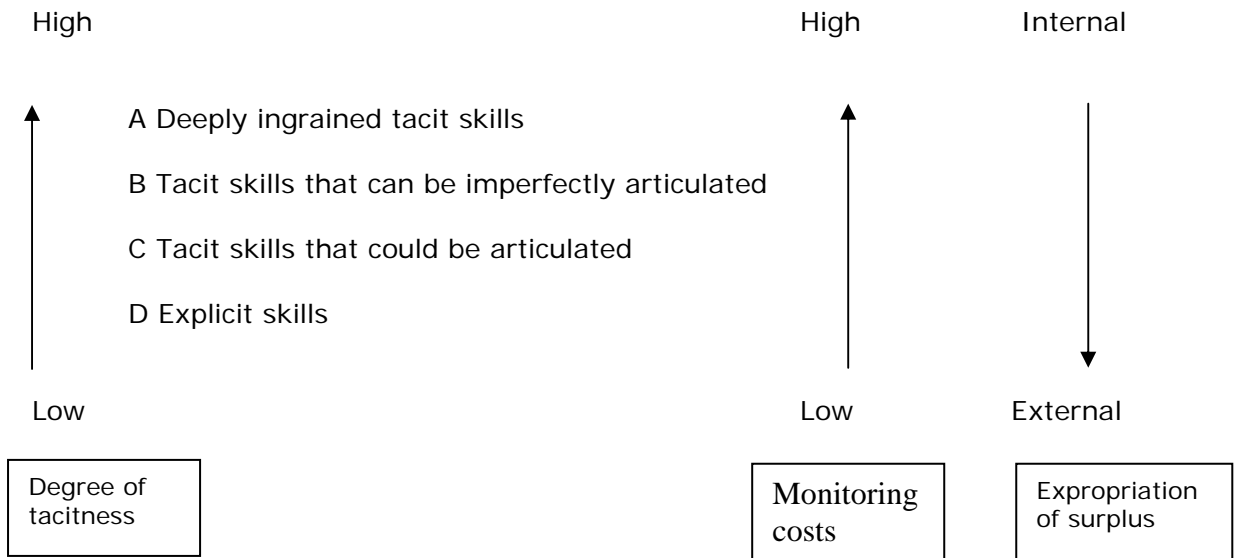


Figure 2: The determinants of sustained competitive advantage and observable profits

		Rent capture	
		External	Internal
Resource base (VRIN assets)	Extensive	<i>Quadrant 1</i> <ul style="list-style-type: none"> • Observed profits: Abnormally high • SCA: Yes 	<i>Quadrant 2</i> <ul style="list-style-type: none"> • Observed profits: Normal • SCA: Yes
	Narrow	<i>Quadrant 3</i> <ul style="list-style-type: none"> • Observed profits: Normal • SCA: No 	<i>Quadrant 4</i> <ul style="list-style-type: none"> • Observed profits: Normal or losses • SCA: No

Notes

ⁱ Labour rents accrue to workers (and managers) where the wage rate exceeds the socially necessary labour. Where workers possess knowledge that is not easily replicable, particularly when routinized within the organization, possession of such knowledge provides workers with opportunities to raise real wages, if they can avoid accountability and appropriate the efficiency benefits (see for example efficiency wage theories, Katz, 1987).

ⁱⁱ For example where abnormal returns from insider stock purchases rise as the firm's R&D intensity increases (Coff and Lee, 2003).

ⁱⁱⁱ Or more precisely, removing the reification, individual capitalists or investors cannot make abnormal returns.