External Dependencies, Relational Resources and Performance Heterogeneity in Emerging Economies

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Abstract: The Resource-Based View of the firm (RBV) has been used to explain performance heterogeneity of domestic firms competing in emerging economies, but the very nature of the firm in the RBV fundamentals does not address relevant issues of resource dependencies. I argue that performance heterogeneity in emerging economies is a function of differential effectiveness in managing stakeholder resource dependencies. To put forward this argument, I use the Resource Dependency Theory to enlarge the concept of the firm in the RBV and I advance a stakeholder-based model to explain efficiency in managing resource dependencies. I suggest that a firm may develop superior relational resources defined as the set of synergic credible commitments a firm devises to economize on multiple stakeholder contracts. Synergic commitments yield decreasing marginal governance costs, which are associated to superior firm performance. The concept of relational resource is incorporated into the RBV framework to make explicit the rent generating condition of effectiveness in managing resource dependencies and the “ex ante nature” of rent sustainability in emerging economies.

1. Introduction

The Resource-Based View of firm (RBV) has become a dominant paradigm in the strategy field (Barney, 2001). Theoretical and empirical developments have shown the importance of firm differences in describing observed firm performance heterogeneity (Rumelt, 1991; McGahan and Porter, 1997). As a consequence of its pervasiveness, the RBV is also used to describe and to analyze phenomena in emerging economies, often combined with other theoretical perspectives (Hoskisson, Eden, Lau, and Wright, 2000; Wright, Filatotchev, Hoskisson, and Peng, 2005).

Although these studies usually apply the Institutional Theory (Wright et al. 2005) to take into account country differences (Wan, 2005), they do not fully question whether the RBV assumptions concerning its basic unit of analysis, the firm, is capable of addressing relevant aspects of performance heterogeneity of domestic firms competing in emerging countries. Even the locally produced research often applies the RBV framework to explain competitive advantage in several sectors, from industrial firms to universities – as paper communications for the Strategy Division (ESO) of the Brazilian Academy of Management (ANPAD) have shown – without much questioning the RBV mantra of “the firm as a bundle of resources”.

Emerging economies shows remarkably differences from the taken for granted assumptions of the mainstream strategy research. Although they show a rapid rate of economic development and policies towards the economic liberalization, and the adoption of a free-market system (Hoskisson et al., 2000), they also show weak formal institutions, economic and political instability, corruption and bribery, high degree of environmental uncertainty, underdeveloped financial markets, and a strong emphasis on informal organizations (Farashai and Molz, 2004).

From a Resource Dependence metaphor (Pfeffer and Salancik, 1978), one may say that key resources for firm survival and competitive advantage in emerging economies lie in salient stakeholders’ hands. These resources include, for example, protection and privileged information from the government (Pearce, 2001, Hoskisson et al. 2000), lubricant mechanisms to reduce transaction friction with suppliers and customers in a weak formal
institutional context, and insurance-like protection against stakeholder claims on firm actions (Godfrey, 2005).

Therefore, “the firm as bundle of resources” does not explain the whole picture for firms in emerging economies because it takes for granted firm resources, does not consider stakeholder resource dependencies and does not explicit important relational aspects of the organizational life. While ex ante limits to competition (Peteraf, 1993) in the RBV literature reduce resource acquisition to economic features of strategic factor markets (Barney, 1986), vital stakeholder resources need to be acquired in wider arenas, in which the firm and stakeholders trade tangible and intangible assets that are not subject to intra-firm accumulation.

In this paper, I argue that performance heterogeneity of domestic firms in emerging economies is a function of differential effectiveness in managing resource dependencies. To put forward this argument, I use the Resource Dependency Theory (Pfeffer and Salancik, 1978) to complement the concept of firm in the RBV (Penrose, 1959) by introducing issues of external effectiveness. Armed with this enlarged concept of firm, I advance a stakeholder-based model to explain efficiency in managing resource dependencies.

Central to this model is the concept of superior relational resources defined as the set of synergic credible commitments a firm devises to economize on multiple stakeholder contracts. I show that synergic commitments entail decreasing marginal governance costs, which are associated to superior firm performance.

I re-write my arguments in RBV terms to make explicit the rent generating condition of effectiveness in managing resource dependencies. And, alternatively to the traditional ex post limits to competition (Peteraf, 1993), I emphasize the “ex ante nature” of rent sustainability in emerging economies. Finally, I deduct three propositions and several research questions to guide future research and to inform managerial practice.

2. Stakeholder resources in emerging economies

While institutional stability is a taken for granted assumption in the RBV framework, in emerging markets institutions should be regarded as a variable that influence organizing and strategizing (Peng and Heat, 1996). “This is because government and societal influences are stronger in these emerging economies” (Hoskisson et al. 2000).

In Brazil, for example, during the eighties, the federal government issued several stabilization plans and promoted economic shocks to control inflation rates that had risen up to four-digit figures (Baer, 1996). These measures deeply affected commercial contracts, savings, and the price of goods. Even after the inflation control in 1994 and the introduction of the Real, economic volatility is still present. In 1998, for example, modification in exchange rate policies, which allowed Brazilian currency to flow freely against US Dollar, yielded a profound impact for economic agents. Today, interest rates in Brazil are among the largest ones in the world, as the growth of the economy slows down. On the political side, corruption scandals abound in the press as they show illegal campaign financing and illegal connections among firms and the government, that is, the executive, the legislative and the judiciary.

Interference of the government into business affairs, political and economic instability at macro-levels, and corruption at micro-levels (Hoskisson et al. 2000) are examples of the environmental hostility to which firms must cope. This context resembles the environment of, what Pearce (2001) called, a non-facilitative government, which is erratic in formulation of laws, weak in their enforcement, and hostile to the independent organization.

I argue that these contextual characteristics imply a lack of institutional trust (Child and Faulkner, 1998) that makes firms dependent on key resources possessed by interest
groups (Pfeffer and Salancik, 1978) or, adopting the concept of Freeman (1984), stakeholders groups, e.g., suppliers, customers, employees, management, financiers, local community, and government. Firms need stakeholder resources to fill the ‘institutional void’ (Khanna e Palepu, 1997, 2000) and to cope with environmental hostility efficiently.

Firm-government relations are particularly important. Hoskisson et al. (2000) affirm that advantages such as first mover advantages, access to distribution and reputation effects are difficult to establish without good relationships with the government. For Austin (1990), the local government is a function to be managed. Pearce (2001) has found that in China and in other transition economies firms establish close connections with the powerful seeking for protection and privileged information.

Similar situation arises in other emerging economies, like Brazil, where the electoral system facilitates close relationships between politicians and firms. As Samuels (2002) argues, at-large electoral districts, the Brazilian states, make difficult for politicians to claim credit for their actions. If we add to this an open list of candidates, reelection becomes too costly. Politicians then trade ‘pork’ for money in order to invest in publicity of what they have done in office (Samuels, 2002).

While there are others political strategies firms can use (McWilliams, Fleet and Cory, 2002), like hiring former government members for their boards (Hillman, Zardkoohi and Bierman, 1999), campaign financing is an important one, mainly in Brazil. While money plays a large issue in Brazilian electoral campaigns, most of them come from firms directly to candidates in exchange of personal services and not to support public policy (Samuels, 2001). By analyzing data on campaign funding in Brazil, Samuels (2001) found correlation between the office for which the candidate was trying election and its power to influence the sector of the donating firm. It is, as the author said, much more advantageous for a construction company to have a governor as a friend than a senator.

Firm relationship with local communities and employees are also important. Although literature is not consensual (Waddock and Graves, 1997), some findings have shown the relative importance of investing in social projects which are directly tied to firm’s primary stakeholders (Hillman and Keim, 2001). Usual argument is that gains in corporate image and reputation may allow for differentiating strategies, decrease the number labor suits or social movements against the firm, as well as attract good labor in recruiting process.

Investing in social projects may also function as an insurance-like protection against stakeholder claims on firm actions (Godfrey, 2005). In emerging economies like Brazil, where ownership concentration of firms are usually high, diversity is not representative inside organizations. As a result, having a good image or an insurance-like protection may play a major role in firm survival and profitability.

Firm relationships with customers and suppliers are a more obvious issue for firm performance. However, in emerging economies, these operations are complicated by the fact that commercial transactions are conducted under weak formal institutions and inefficient legal systems (Hoskisson et al. 2000). Large, diversified business groups are a well-studied example of a successful organizational form, found in emerging economies, to cope with these adversities. Business groups serve as a way to fill the “institutional void” by internalizing activities of specialized intermediaries in high transaction cost environments or by lobbying bureaucrats in exchange of favors (Khanna e Palepu, 1997, 2000).

However, I propose that business groups are not the only way to fill institutional voids. Instead of internalizing activities, a single firm can develop “lubricating mechanisms” to deal with suppliers and customers, by establishing relationships with multiple interacting stakeholders. For example, a firm that has previously established positive relationships with government and local community may also benefit from lower cost of capital when dealing with capital suppliers. For state-owned banks or governmental financing agencies, for
instance, good relationships with the powerful may facilitate borrowing money in attractive conditions, such as overestimation warranties, requiring less paperwork, or by simply granting privileged access. As for private banks or funds, they would be more willing to make a positive evaluation of a firm that has already made non-recoverable investments in building a good public image through social projects, simply because a good image positively signal to the financial institution (Cornell and Shapiro, 1987), or because this previous commitment gives no incentive to the firm to default the financing contracts.

I argue that firms would be better off in emerging economies if they cultivate relationships, not only to a single stakeholder group, but to multiple interacting stakeholders. These interest groups possess superior resources firms need to cope with environmental uncertainty: protection, privileged information, legitimacy for a good image, and these resources together provide lubricating mechanisms for firm transactions with suppliers and customers. Performance heterogeneity would come from differential ability to manage resource dependencies vis-à-vis multiple stakeholders. However, this is not a salient issue in the RBV, because of the very definition of firm found in the RBV fundamentals.

3. The firm in its Resource-Based View

In Economics, the firm has been defined in several ways, usually departing from the neoclassical Theory of the Firm, to address questions from its mere existence (Coase, 1937) to its growth (Penrose, 1959). Although Penrose (1959) tried to ask a different question than the one asked by the RBV, her treatment of the firm has contributed to provide a theoretical support to the Resource Based View. Without diminishing the contribution of scholars who built the RBV (Wernerfelt, 1995), Penrose’s seminal contribution is clearly identifiable in the theoretical framework (Mahoney and Pandian, 1992).

Not only the mantra “the firm as a collection of resources” is found in Penrose (1959), but several elements of the RBV framework can also be found in her book. In this section, I show how the RBV core definitions as inherited from Penrose (1959) do not make the fundamental problems of performance heterogeneity in emerging economies explicit.

The firm is viewed as a rather autonomous administrative planning unit. Penrose (1995) comments the notion of autonomy in a footnote: “The concept of autonomy must not be taken too rigidly. It certainly can never mean completely independence of any external forces nor that there are not areas in which a firm is forced to adopt certain policies against its will” (p. 16). This is central to my argument. In emerging economies, it is not the degree of “completely independence” that matters, but rather, due to external dependencies, it is the extent to which the firm can avoid a “complete dependency”.

She then defines the firm as “more than an administrative unit; it is also a collection of productive resources the disposal of which between different uses and over time is determined by administrative decision” (Penrose, 1995, p. 24). This definition carries an important aspect to my argument: while in her view the administrative unit is relatively autonomous and the ultimate responsible for searching for new application of resource services, the external environment of emerging economies limits the choice of using actual resources, since the new resources needed for expansion are in possession of powerful environmental actors. The emphasis is shifted from an internal view of exerting managerial control under an administrative unit to avoiding stakeholder dependencies.

Her distinction between resources and the services resources can render is particularly important. “The services yielded by resources are a function of the way in which they are used – exactly the same resource when used for different purposes or in different ways and in combination with different types or amounts of other resources provides a different service or set of services” (Penrose, 1995, p. 25). This idea underlies the RBV core concepts of firm
heterogeneity from resource heterogeneity: “It is the heterogeneity […] of the productive services available or potentially available from its resources that gives each firm its unique character” (Penrose, 1995, p. 75).

Collective knowledge of managerial services is a major resource since they make growth possible but also limits its rate. In the course of its history, a firm learns and increases managerial knowledge to coordinate new expansions towards new productive opportunities to using existing resource services (Penrose, 1995, p. 14). “This increase in knowledge not only causes the productive opportunity of a firm to change in ways unrelated to changes in the environment, but also contributes to the ‘uniqueness’ of the opportunity of each individual firm” (Penrose, 1995, p. 53). On the other hand, Penrose (1995) follows an evolutionary reasoning (but not a biological one) and considers an “inherited character” to firm resources: “existing managerial personnel provide services that cannot be provided by personnel newly hired from outside the firm […] they create a fundamental and inescapable limit to the amount of expansion a firm can undertake at any time” (p. 46-48).

Therefore, by combining the complex and intricate notion of resource services with the potential of learn and of discovery of new combinations and usages for these services, one may say that the Penrosean firm possesses in its very nature the seeds of their uniqueness. This is the central argument also in the RBV, be the structural school or the process school (Schulze, 1994), its knowledge “branch” (Kogut and Zander, 1992; Foss, 1996). One can easily also recognize in Penrose’s ideas other elements of the RBV framework, like causal ambiguity, rent seeking, social complexity, imperfect mobility, and path dependency. However, a close examination of this proposition is out of the scope of this paper. But I leave to the reader to find the resemblances in the excerpts.

The final point to my argument is that for Penrose (1959) and, by extension, in the RBV framework, resources are taken for granted. She never questioned where the resources of her model of firm came from in the first place. The general purpose of the firm “is to organize the use of its ‘own’ resources together with other resources acquired from outside the firm for production and sale of goods and services at a profit” (Penrose, 1995, p. 31). This definition implies that own, inherited resources are taken for granted, as they will be retained by the firm in the long run. Acquisition of new resources does not face constraints besides the economic ones, which Penrose calls “external obstacles” (Penrose, 1995, p. 66). Although she emphasizes the importance of compromising managerial resources to gather information for planning, her ideas falls short in take into account firm dependencies to stakeholder resources like protection, privileged information or the possibility of building lubricating mechanisms.

I argue that to understand performance heterogeneity in emerging economies, one need to make explicit different, but complimentary, aspects of the firm needed to take into account effectiveness issues of satisfying stakeholder claims. I believe The Resource Dependency theory is suited for this task.

4. The Resource Dependency argument of external dependency

Pfeffer and Salancik (1978) offer a theory to explain how organizational behavior is dependent on external constraints, that is, subject to social control. They assume that as environmental actors evaluate the usefulness and legitimacy of the organizations’ activities, external dependency would come from the fact that these actors, or interest groups in their terms, control critical resources to firm survival.

The Resource Dependency theory places emphasis in organizational effectiveness rater than efficiency. According to Pfeffer and Salancik (2003), while the latter is a relatively value-free internal measure, “effectiveness is an external standard applied to the output or activities of an organization […] by all individuals, groups or organizations that are affected
by, or come in contact with, the focal organization (p. 34). That is, effective organizations successfully manage external dependencies to acquire and maintain vital resources, such as “monetary or physical resources, information or social legitimacy” (p. 43), possessed by interest groups.

The argument of external dependency requires a more encompassing definition of firm (or organization) than that of the RBV. Pfeffer and Salancik (1978) utilize the concept of coalition from March and Simon (1958) and the notion of partially included individuals from Allport (1962) and Weick (1969) to define organizations as coalitions of parties who agree to contribute the resources and support necessary for its survival in exchange of inducements (or satisfaction). Individuals are assumed to be partially included in the organization, in the sense that is not themselves, but a part of their behavior that is organized by the collective structure of an organization. An individual or group may then participate in several groups, besides the organization, to whom he or she performs activities, such as different organizations, political and social associations, or their families. As different groups require different participations, he or she needs to compromise among different group demands.

Therefore, the organizational boundaries are defined “where the discretion of the organization to control an activity is less than the discretion of another organization or individual to control that activity” (Pfeffer and Salancik, 2003, p. 32). They then add that “the survival of the organization depends on the set of activities over which it has control. This conceptualization explicitly recognizes the external basis of organizations (p.33)”.

The coalitional nature of the organization implies dealing with multiple demands form different actors. As long as interest groups of the social context, that is who are not yet controlled by the coalition, possess vital resources, organizations would try to incorporate them and expand its boundaries. This is the Resource Dependency argument to explain organizational phenomena such as mergers, interlocking directorates, joint ventures and government lobby (Pfeffer and Salancik, 1978). In this world of interdependencies among organizations, the Resource Dependency theory places emphasis on the political aspect of the organizational life whose behavior is explained by finding a position to exert or to avoid control from other organizations.

Indeed, the external dependency argument seems to fit nicely in the context of firms operating in emerging economies: (a) it does not take for granted firm resources; (b) the coalitional nature of the organization considers the importance of external interest groups; (c) organizational strategies aim to manage external dependencies to grant vital resources possessed by interest groups; (d) firm survival is a function of its effectiveness in meeting divergent interest group demands.

4.1 Managing external dependency efficiently

Typical strategies to manage the external dependency include avoidance or adaptability to external dependencies. At the core of these strategies are issues of effectiveness in managing resource dependencies and granting firm survival. However, if one thinks of performance heterogeneity, to ask how a firm may manage resource dependencies more efficiently than its competitors is a salient question. I believe that Stakeholder theory may shed some light.

The concept of interest group, advanced by Pfeffer and Salancik (1978), has influenced the seminal work on stakeholder management by Freeman (1984). Since then, Stakeholder theory has been widely studied (Donaldson and Preston, 1995). Despite its application in more normative issues of the Business and Society field, it is at the bottom line, a managerial theory (Phillips, Freeman and Wicks, 2003). Next, I put forward a model of stakeholder management based on a contractual metaphor.
4.1.1 A contractual metaphor for stakeholder management

The contractual metaphor has been used to describe firm-stakeholder in the field of Business and Society (Donaldson and Dunfee, 1999; Freeman and Evan, 1990; Friedman and Miles, 2002; Hill and Jones, 1992; Jones, 1995). The model described here share the instrumental view of stakeholder theory (Donaldson and Preston, 1995), in which efficient contracting with stakeholders would maximize conventional firm performance measures (Jones, 1995; Berman, Wicks, Kotha, and Jones, 1999).

If one takes the definition of stakeholders as “any group of individual who can affect or is affect by the achievement of a corporation’s objectives” (Freeman, 1984, p. 46) and that of stakeholder contracts as “relationships entered into with some degree of freedom and in accord with at least some of the interests of the parties” (Friedman and Miles, 2002, p. 7), then one can view the firm as a “nexus of contracts” (Jensen and Meckling, 1976; Williamson and Winter, 1991), a focal point of separate bilateral contracts (Hill and Jones, 1992) with groups such as stockholders, employees, customers, suppliers, local communities, government and financiers.

I focus on “relational contracts”, a type of contract originally developed in the field of Law (Macaulay, 1963; MacNeil, 1978) and that was brought in the business literature by Williamson (1985). This kind of relationship occurs when the “identity” of the parties to a contract matters, market procurement is not viable and both parties are willing to maintain the relationship. Relational contracts in Williamson (1985)’s view imply the existence of opportunism, bounded rationality (incomplete contracts) and idiosyncratic investments, for which bilateral governances are found to reduce transaction costs and to promote contract efficiency.

Transaction costs are of two types, ex ante and ex post. They include ex ante costs of drafting, negotiating and safeguarding an agreement, and ex post maladaptation costs, haggling costs, set up or running costs (associated to the governance structure) and bonding costs to secure commitments (Williamson, 1985). Ex post transaction costs includes safeguards against opportunism, that is, strategic behaviors aiming self-interest. Safeguards can be in the form of incentives to make parties live up to the agreement (Williamson, 1985).

According to Williamson (1985), bilateral governances are structures devised to recurring transactions supported by specific investments, in which the autonomy of the parties is maintained. As an example, he proposes the hostage model, in which each party offers a “hostage” who should be perceived by the other party as having the same value as the amount of specific investments made to undertake the exchange. The specific investments, the hostages, serve as signaling credible commitments by the parties and are incentives to each party to live up to the agreement, or in Williamson (1985)’s words “reciprocal acts design to safeguard a relationship” (p. 167).

In the present case, I argue that (a) credible commitments may be used to govern firm-stakeholder relations; and (b) that interaction among stakeholders may reduce overall costs as they yield synergetic commitments. For example, firms investing to deliver promised environmentally-safe products, or engaged in philanthropy or any other social project commit themselves, i.e. “offer a hostage”, to the extent to which the amount transferred to the recipient stakeholder party, or the dedicated assets, are non-salvageable. This commitment is also seen as an interest-aligning mechanism or a strategy for selling a claim to the stakeholder signaling the firm is not willing to make opportunistic moves (Cornell and Shapiro, 1987). In exchange, the stakeholder group may commit itself by publicly endorsing the firm position and indirectly promoting cooperative behavior among its members. An interest group may comply because it “feels morally compelled not to make a (new) demand or feels that the
satisfied demands will be threatened if other claims are made” (Pfeffer and Salancik, 2003, p. 97).

The case of the firm-government relationship has already been mapped as an exchange hostage situation by Pearce (2001), in which parties are mutually dependent. Indeed, firms commit themselves by giving money to electoral campaigns, a non-recoverable resource, and also by incurring the risk of being associated to politicians, an avoided image by most companies, specifically in Brazil. Once in office, politicians need to work to make actual and future contributions worth, as reelection is costly (Samuels, 2002). This willing to continue the relationship implies commitments for the politician who needs to compromise vis-à-vis the interests of their multiple constituencies.

Not only individual firm-stakeholder relation is important, but, as described in section 2, relationships with multiple interacting stakeholders is central to develop lubricating mechanisms that reduce friction in a contract and help firms cope efficiently with environmental uncertainty. To this respect, I argue that a firm committed in different \( n \) stakeholder contracts will achieve overall mutual cooperation more efficiently if the \( n+1 \) stakeholder interacts with the existing firm contracts.

This implies that, controlling for expropriation problems (Williamson, 1985), firm commitments to support contract with the \( n+1 \) stakeholder will be less costly as the latter perceives that the cost of contract defection, for the firm, is greater than the benefits of opportunism. This is likely to happen when contract defection with the \( n+1 \) stakeholder would cause previous firm commitments to loose perceived value. In other words, for the firm, the gains of acting opportunistically and “breaching the contract” with stakeholder \( n+1 \) would not be enough to cover the commitment cost increment in some of the other \( n \) stakeholder contracts.

For example, a firm that has donated money to community projects would increase its payoffs in investing in social programs for its employees. Since the defection of the employee contract would diminishes the efficiency of the cash donated to community in generating public support, employees may become more willing to cooperate and to positively evaluate firm commitment to their program. The same reasoning applies when previous investments in environmental-safe facilities would make less expensive to achieve public support while donating money to community projects. Perception indeed plays an important role in credible commitments. Measuring stakeholder payoffs in firm contracting is highly uncertain and sensitive to information disclosure about the firm (Cornell and Shapiro, 1987), and perceived hostage evaluation is a critical aspect for setting up efficient bilateral governances (Williamson, 1985).

A firm would benefit from decreasing governance marginal costs to the extent to which new stakeholder contracts interacts with existing firm-stakeholder contracts. Interaction among specific investments in devising safeguards for multilateral contracts has been pointed out by Freeman and Evan (1990). Coalitions and cooperation among stakeholders are an important aspect (Freeman, 1984; Hill and Jones, 1992). Luk, Yau, Tse, Sin, and Chow (2005) for example found empirical support for synergetic effects of multiple stakeholder orientation on firm performance.

One may argue that this efficiency gains are reputation effects of being trustworthy (Jones, 1995). Indeed, following Barney and Hansen (1994), cash giving strategies can also be regarded as unilateral transaction-specific investments prior the transaction, signaling to the other party a strong form of trustworthiness. And philanthropy may be viewed as a strategy for accumulating moral capital, which provides stakeholders with an insurance-like protection (Godfrey, 2005), or a strategy to build an optimum trust with stakeholders (Wicks, Berman, and Jones, 1999).
In fact, differently from previous applications of contracts in stakeholder theory, we make no explicit claims to any underlying “moral foundation” (Phillips, Freeman, and Wicks, 2003), such as a broader view of property rights (Donaldson and Preston, 1995), an integrative social contracts theory (Donaldson and Dunfee, 1999) or the Rawlsian social contract argument of fair contracting (Freeman and Evan, 1990, Freeman, 1994).

The reason is that stakeholder heterogeneity and dynamics favor differential treatments for each group. “While there are still some stakeholder groups whose relationship remains instrumental (due largely to the power they wield), there are other normatively legitimate stakeholders than simply equity shareholders alone” (Phillips et al., 2003, p. 481). The firm should consider differential stakeholder contribution to “distribute the fruits of organizational success (and failure) among all legitimate stakeholders” (Phillips et al., 2003, p. 486).

However, I consider that moral aspects of stakeholder theory are operating in the background. Trust, for example, may evolve from its semi-strong form, in which contract parties, facing opportunism, bounded rationality and asset specific investments, are protected through contractual or social forms of governance to a strong form of trust, in which exploiting other party’s vulnerabilities would violate values, principles and internalized standards of behavior (Barney and Hansen, 1994), thus, solving commitment problems more efficiently (Jones, 1995). On the other hand, for some stakeholder groups, connections among stakeholders may become so fragile and their interests so incompatible that normal social rules would be suspended so as there would be no contract (Friedman and Miles, 2002).

I remain thus at the instrumental level of analysis as my argument focuses on how contracts with stakeholders can be assigned to synergic governance structures in way that overall mutual cooperation provides efficient access to key external resources. More specifically, I believe that by creating and maintaining a “bundle of governances” (Barney and Hansen, 1994) of synergic firm-stakeholder contracts, the firm would reduce ex ante and ex post transactions costs. The firm would attract good transacting partners and would efficiently govern relationships to get access to rare, valuable “country resources” (Wan, 2005).

5. Incorporating external dependencies into the RBV framework

I initiated this paper describing the importance of stakeholder resources for firm survival and profitability in weak institutional environments of emerging economies. Protection, privileged information and lubricating mechanisms are some of these stakeholder resources firms need cope with environmental turbulence. I then suggested that mainstream Resource-Based View should be complemented with the Resource Dependency Theory to explain firm heterogeneity in those contexts. Finally, I advanced a contractual-based model of stakeholder management to explain efficient management of resource dependencies.

In this section, I re-write my propositions in RBV terms. Three points are important: (a) the definition of what I call relational resources; (b) the importance of resource procurement; and (c) a proposition of necessary and sufficient conditions of sustained competitive advantage in emerging economies.

A firm that, as a focal point of multilateral stakeholder contracts, devises bilateral governances to signal credible commitments may grant mutual cooperative behavior and benefit from efficient access to valuable stakeholder resources. When synergic commitments are present, the firm benefits from superior efficiency as the governance marginal costs decrease. Formally defined, the “relational resources” of a firm are the set of credible commitments devised to support relational contracts with salient stakeholders. A firm is said to possess superior relational resources when synergic commitments are present in the set.
The above definitions call for a reflection about the importance of resource procurement for firm heterogeneity in emerging economies. As I intended to show, firm resource is taken for granted in the RBV fundamentals. The founding papers of the RBV tradition (Wernerfelt, 1995; Barney, 2001) consider resources as assets tied semipermanently to the firm (Wernerfelt, 1984), or stock of assets that has been accumulated inside the firm over time (Dierickx and Kool, 1989), that may become quasi-genetic traits (Nelson and Winter, 1982), or a valuable firm attribute (Barney, 1991).

Therefore, the RBV treatment of resource acquisition is rather limited. The first time it appears was in Barney (1986)'s treatment of tradable resources. He proposed that above normal economic performance would come from rents of resources acquired in imperfect factor markets, in which different expectations about the future value of the resources coexist as they are formed from asymmetric information or good fortune (Barney, 1986). Later, Peteraf (1993) used Barney (1986)'s idea to define the ex ante limits to competition as a cornerstone of competitive advantage, but not a rent generating mechanism. Resource acquisition appears indirectly in the RBV literature in specific problems, for example, that of networks and alliances (Lavie, 2006; Dyer and Singh, 1998), resource complementarities in mergers and acquisitions (Wernerfelt, 1984; Hitt, Dacin, Levitas, Arregle and Berza, 2000) or in personal network ties (Peng and Luo, 2000).

Ex ante issues in RBV do not pertain to either necessary or sufficient conditions of sustained rent generation and competitive advantage. Necessary conditions of resource value and rarity, and the sufficient conditions of imitability and substitutability (Barney, 1991) take for granted firm resources and do not include resource acquisition. Ex ante limits to competition come into play, as Barney (1986) and Peteraf (1993) suggests, because the cost of resource acquisition may possibly offset rents. They do not influence rent generation or its sustainability.

The taken-for-granted assumption of institutional stability in the RBV has made possible to reduce the treatment of the ex ante issues to economic features. However, the consideration of the relational resource concept in explicating firm performance heterogeneity in emerging economies calls for a close examination of the necessary and sufficient conditions of the RBV. I propose to make explicit: (a) the property of “resource effectiveness” as a necessary condition; and (b) the “ex ante nature” of rent sustainability.

According to Barney (1991), a firm attribute is a “firm resource” if they help it to improve its efficiency and effectiveness. Although the concept of effectiveness is not clear in Barney (1991), to the emerging economics context, I argue that it implies the successful management of resource dependencies. In this sense, effectiveness should be explicit as a necessary condition because it is vital for firm survival in the first place, as stakeholders control resources needed to cope with environmental uncertainty.

Therefore, the very definition of superior relational resources implies efficiency and effectiveness as the set of credible commitments provides decreasing governance marginal governance costs while relating to stakeholders. Once developed by the firm, this structure grants a continuous inflow of stakeholder resources and the lubricating mechanisms for procuring with suppliers and customers.

Superior relational resources are also valuable because, as it deals with environmental conditions, it contributes indirectly to increase the value of existing firm endowments. Besides, since it foster mutual cooperation, it contributes to implement differentiation strategies, such as building a good corporate image and marketing environmentally-safe products, or to raise rivals’ costs by managing to change industry regulation (McWilliams, Fleet and Cory, 2002). As concern their rarity, even if it is initially assumed a semi-strong form of trust (Barney and Hansen, 1994) for individual firm-stakeholder relations, the superior relational resources are unique combinations of synergic contractual commitments,
whose chain of interaction is not easily identifiable. Although firm-stakeholder contracts are not scarce, the best combination in the set of credible commitments that would efficiently manage resource dependencies is.

The second dimension I suggest to make explicit in the RBV framework are the “ex ante nature” of rent sustainability, which can be better understood by the following comparison. If one considers, for example, the case of turbulent environments of rapid technological changes, having good fortune seems to be important in successfully deploying dynamic capabilities in order to change organization towards new valuable resource configurations (Barney, 1991; Eisenhardt and Martin (2000) and Teece, Pisano and Schuen (1997). In the case emerging economies, environmental dynamics are of an institutional nature (Wright et al., 2005), and “good fortune” comes in the form of protection and privilege information provided by the relational resources.

However, differences relies on the fact that in the case of dynamic capabilities, the actual base of firm resources are rearranged to match a rapid changing environment, while in the case of emerging economies, relational resources allow firm intervention in environmental changes, to generate an efficient inflow of the “right” resources that will be valuable in the new institutional arrangement. Therefore, instead of granting the rent stream of the actual resources, the “ex ante nature” of rent sustainability pertaining to the relational resources concerns granting ongoing rents of actual and future resources in an institutional changing environment. For example, good relations with the government may grant privilege information and the possibility to foster future institutional contexts. If we add to this, relationships with local community, for example, the firm may benefit from superior access to capital suppliers. As a result, the firm can anticipate future events and produce favorable contracts with suppliers and customers.

Besides the “ex ante nature”, superior relational resources also possess traditional ex post limits to competition (Peteraf, 1993; Barney, 1991; Dierickx and Kool, 1989). The development of a unique set of credible commitments involves a process of learning to identify salient and interacting stakeholders. This requires time and it is a path dependent process, to the extent to which previous commitments influence new ones. To a certain point when superior relational resources are developed they become socially complex as an intricate set of commitments that involves a mix of cross-perceptions, imagery, reputation, calculative trust, moral feelings and divergent interests are hardly subjected to direct firm management. Finally, causal ambiguity derives from the difficulty in discerning the marginal effect on governance costs due to the introduction of a new stakeholder contract in the set, and from the interaction between the developed relational resources and the existing idiosyncratic firm resources. The degree to which the relational resources are substitutable is a function of how well strategic substitutes would manage stakeholder resource efficiently. Other hybrid forms like business groups have been cited, but its effectiveness has been contingent to specific economic situations. Guillen (2000) has noted, for example, that group membership is related to superior firm performance in conditions of asymmetric foreign trade and investment conditions.

One may argue that the relational resources are analogous to first mover advantages (Lieberman and Montgomery, 1988). However, they are more encompassing than these advantages from privileged access to industry resources, as it strives to sustain actual and future rents in a turbulent environment, under which first mover advantages would be eroded. Indeed, as Hoskisson et al. (2000) argues, these advantages are difficult to establish without good relations with home governments.

One may also argue that resource value, as the ability to neutralize threats and capitalize opportunities (Barney, 1991), may already include the notion of effectiveness. Besides, due to the all-inclusive nature of RBV (Priem and Butler, 2001), relational resources
can be viewed as already integrating itself the endowment of the firm. I think it is not worth to not make explicit the resource dependency aspects and the ex ante nature of performance heterogeneity, as they entails several research and practice implications.

6. Implications for Research and Practice

In this paper, I developed the argument that managing resource dependencies explains performance heterogeneity in emerging economies. Central to this argument is the concept of relational resource. If the ideas presented here are logically coherent, one can advance research questions and propositions to guide future research and to inform managerial practice.

The concept of relational resource may find logical support in the literature about strategy in emerging economies. Hoskisson et al (2000) suggest that high opportunistic behaviors due weak and changing formal rules, corruption and bribery, and political instability put specific investments at risk. In this institutional context, where market infrastructure are not well developed and transaction costs are high, hybrid forms, like business groups and networks based on personal contacts, appear as a viable alternative to do business. I argue that the development of a set of synergic commitments is an alternative hybrid form for a local firm to compete in these situations. “In emerging economies, local competitors may have developed capabilities for relationship-based management in their environment that substitute for the lack of institutional infrastructure” (Hoskisson et al., 2000, p. 256).

On the other hand, the view of the “ex ante nature” of rents places more emphasis on the continuing flow of resource acquisition than on the importance of achieving “strategic flexibility” to adapt existing resources to face change (Wright et al. 2005). But, it should be noted that the former does not disregard the latter, only it makes explicit the need to continuously grant stakeholder resources.

Three propositions may be deducted from the discussion around external dependencies, relational resources and firm performance heterogeneity in emerging economies:

P1: Firm performance heterogeneity is a function of differential effectiveness in managing stakeholder resources dependencies.

P2: Synergic commitments in firm-stakeholder relational contracts are associated with interaction among stakeholders.

P3: Sustained above normal firm performance is a function of decreasing marginal governance costs in firm-stakeholder relational contracts.

It should be noted that, as Wicks and Berman (2004) and Jones (1995) propose, institutional environment, formal institutions, and socio-cultural and industry norms moderate stakeholder management strategy effects on firm performance. Therefore, the above propositions need to be modeled carefully in order to take into account controlling and intervening variables. I have conducted, with two colleagues, two empirical studies of the relational resource effect on firm performance of firms in Brazil (references are omitted due to blind review purposes). In one study, we have found that having contracts with at least both government and society is associated with superior firm performance. In the other, the interaction between these two stakeholders reduced the negative effect of firm leverage, indicating superior access to capital sources.
Propositions at this level of abstraction may sound tautological. But I believe further research will contribute in refining the model. Some, non-exhaustive, questions may include: (a) what are the mechanisms associated with stakeholder interaction and perceived hostage value? (b) How the marginal effect of stakeholder entry in the set of contracts varies across different stakeholder group combinations and industries? (c) How the measures of stakeholder power, salience, and firm dependency vary across industries? (d) How is the process of building stakeholder relationships and how they interact with firm strategy? (e) How trust evolves from a calculative form into a value-based trust? (f) How enduring is the value of relational resources vis-à-vis traditional market-based resources and capabilities as institutions develop?

Work should also be done in search for possible incompatibilities of combining the Resource-Based View, Resource-Dependence Theory, Transaction Cost Economics and Stakeholder Theory in the way proposed here. I tried to provide arguments for a non-incompatibility, as they are encourage in studying strategy in emerging economies (Wright et al. 2005).

Finally, how can managerial practice be informed? Uncertainty pertaining to the emerging economy environment, as hostile as it is to firms, also make possible, as in the Knightian world (Knight, 1921), several profit opportunities. Then I hope the concept of relational resources may contribute to increase the managerial capability in making the right estimates. Managers would focus on building the best set of synergetic commitments, on concerning not only to protect actual resources from the competition but also the access of future valuable resources, on developing political abilities, and, most of all, on monitoring the value of their relational resources as institutions develop and the country finally emerge.

References


