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"The application of the resource-based theory to outsourcing decisions in multinational corporations – a literature review"

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e.g.	for example; for instance; (latin: exempli gratia)
et al.	et alia (latin), and others
IB	International Business
IO	Industrial Organization
IOS	International Outsourcing
M&A	Mergers and Acquisitions
MNC's	Multinational Corporations
RBV	Resource Based View
SCA	Sustainable competitive advantages
TCT	Transaction Cost Economics
VRIS	"value, rarity, imitability and substitutability" – concept of the resource-based view
VRIO	"value, rarity, imitability and organization" – concept of the resource-based view

1. Introduction

The first chapter of our study includes the problem statement, objectives and research questions set. In addition, the information regarding the structure of the study is represented.

1.1 Objectives and research questions set

The multinational corporations (MNC's) in today rapid changing environment face a lot of challenges regarded competition. How to make your company unique with the best performance results is the main question that management of the company face and try to solve. They are aware with the fact that the only way to survive is to do something that will differentiate your company from others and what competitors will not replicate in the long run. One of the main strategies that can help company to achieve sustainable competitive advantages is the best use of strategic resources. The best explanation of this operation described in the theory known as resource-based view (RBV), that emerged in 1991 after Barney's article "Firm resources and sustained competitive advantage" was published and since that time is widely used as one of the most momentous model in all field of strategic management, HR management, marketing, outsourcing and international business. The central focus of the resource-based theory is on resources and capabilities that firm control. Resources are meant to be the best source of sustainable competitive advantage if they meet the criteria of valuable, rare, imperfectly imitable and non-substitutable (Barney, 1991). Therefore, one of the main goals of MNC's is to find which resources fulfil this criterion and how to make the best use of them.

This study addresses the resource-based view theory and how it could be applied to multinational companies and mainly to outsourcing decisions and reviews the literature on this subject. After selection of required articles from different academic journals, assessment of the results from 'current-state literature review' was represented and conclusion was drawn.

The objective of this study is not just to provide a list of articles regarding this topic but offer an overview supported by empirical results and facts concerning different field where the RBV could be applied. Furthermore, this study will provide the answer to the following research questions:

1. How relevant is the resource-based view framework for multinational corporations?
2. What are the findings in a current-state literature review regarding the application of the resource-based view framework to outsourcing?

1.2 Structure of the study

The structure of this study consists of six main parts and the following Figure 1 gives a general overview of the way this study is structured.

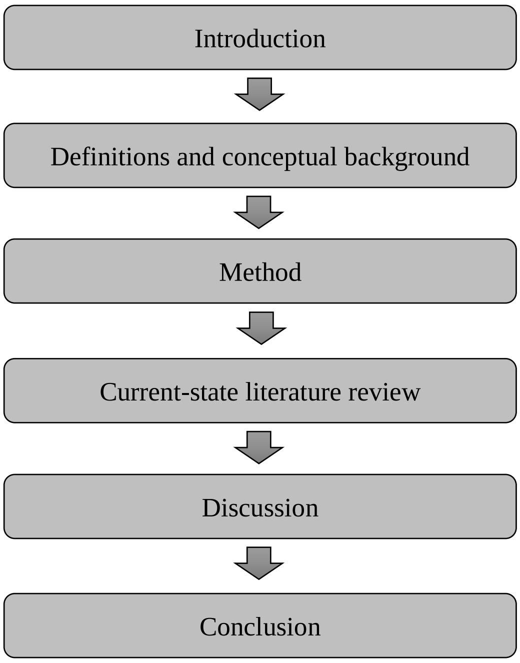

Figure 1: Basic structure of this study

- In the '*Introduction*' chapter, a general idea about the study's issue and objective as well a research question set and the basic structure of the study are represented.
- Chapter 2 gives the '*Definitions'*, in order to facilitate readers understanding of the resource-based theory as the main perspective in international business (IB) and how it can be applied to multinational corporations. The main purpose of this chapter is to provide the conceptual background for the literature review. In this chapter, the basic concepts and definitions that are underlying this work are discussed, namely, outsourcing and offshoring, transaction costs economies and the resource-based view.
- Chapter 3 concern details of study's *'Method'*. Here inclusion and exclusion criteria are set, selection of journals and articles explained and web-based searching platforms are represented.

- What follows is the main part of the thesis that represents the subject matter - Chapter 4 named ‘*Current-state literature review’*. First of all, we will go into details concerning the study’s method and move on to brief overview and analysis of several academic papers related to the emergence of the RBV, its application to the MNC and the decisions taken by MNC’s regarding outsourcing from the RBV framework. The main hypotheses, propositions and variables are visualized.
- The main findings of the analysis will be represented in Chapter 5 – ‘*Discussion’.* Answers to the research question set will be given and limitation of the study will be presented.
- Finally, Chapter 6 brings the reader to the ‘*Conclusion*’ and provides recommendation for future research.

2. Definitions and conceptual background

Second chapter gives definitions of terms that are important for our study, presenting their main characteristic separately and in relation to each other.

In order to give comprehensive summary on the topic, a rather limited conceptual area was chosen, namely the impact of resource-based theory (RBV) as a framework on different field of strategic management and mainly on outsourcing decisions in multinational corporations (MNC's). Thus, we will define such concepts and models as "resource-based view", "transaction costs theory" and "outsourcing/offshoring".

2.1 The resource-based view theory

We begin with the resource-based view theory. RBV is a framework which can be used by firm to achieve competitive advantage. To analyse those advantages, the RBV assumes that resources are differently distributed and markets are imperfect. This approach investigates the relationship between internal characteristics of the company and its positioning (Espino-Rodriguez, 2006).

If we look back into history, we can affirm that the first economist who has represented enterprises as a bundle of resources was Edith Penrose in her work "The theory of the growth of the firm" 1959 and which 20 years later led to the development of the resource-based view of the firm as a main paradigm in today's strategic research management. Later in (1984) Wernerfelt in his work "The resource-based view of the firm" emphasized the importance of resources and their implications for firm performance, invented the term RBV and underlined the idea that resources are of special value of the firms. Unlike the authors of the industrial organization (IO) he came up with questions about what kind of resources a company should use to build its diversification strategy or which resources should be further developed through diversification. Until then, the strategy questions had been: What is our business? Who are our customers? Based on the assumption that firms are heterogeneous, (which means that skills, resources and other capabilities differ between companies), Wernerfelt described how resources which company already possess can be used to develop new ones which ultimately helps to achieve competitive advantage. Obviously, there's no doubt that Barney (1991) made the greatest contribution to the development of this theory. In his research "Firm resources and sustained competitive advantage", he developed a framework (Figure 2) determining the elements that can allow resource immobility and heterogeneity create sustained competitive advantage. Thus, it is important to distinguish between competitive advantage and sustainable competitive advantage (SCA).

"A firm is said to have a ***competitive advantage*** *when it is implementing a value creating strategy not simultaneously being implemented by any current or potential competitors"* ***sustained competitive advantage*** has the same meaning but it said that it is sustained when "*these other firms (competitors) are unable to duplicate the benefits of this strategy"* (Barney 1991, p. 102).

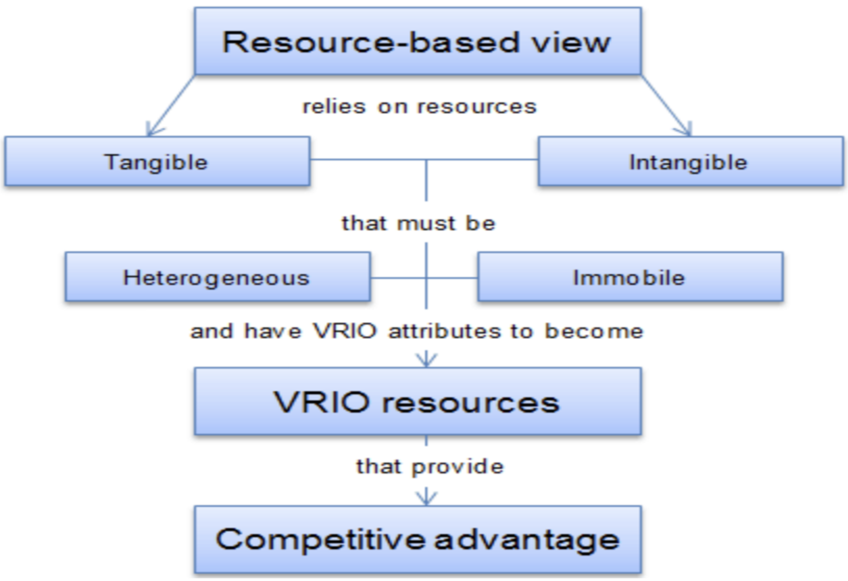

Figure 2: Resource-based view framework (Ovidijus Jurevicius, 2013)

First of all, these definitions take into account not only current but also potential competitors. Second, term sustained in Barney work contradict the opinion of many other authors in previous researches, that sustained means competitive advantage that last a longer period of time. He indicates, that sustained means those advantages that continue to exist after efforts to duplicate and have nothing to do with a period of calendar time during which a company enjoy competitive advantage (Barney, 1991), as many authors suggested. Here we can give some example, a company such as Intel, is able to develop some microprocessor which is faster and productive compered to competitors. Thus, Intel has competitive advantage, as long as rivals do not create their own or even better chip. It means that Intel created a temporary advantage which is less important over the long term than the ability to sustain it. Thus, for this competitive advantage to be sustained, a company have to make this microprocessor better not just once, but in perpetuity (again and again) (Furrer, Krug & Sudharshan & Thomas 2004).

2.1.1 Firm resources and capabilities

Resources are one of the main criteria for companies to achieve competitive advantages. However, the RBV postulates that not all resources are sources of sustainable competitive advantage (Galbreath, 2005). As we know, there are two types of resources: tangible and intangible. In contradistinction to tangible resources, intangible resources are difficult to purchase, hard to imitate and almost impossible to transfer between companies (Teece 1998, Barney 1986a). Tangible resources are easier to manage, because you can hire staff, buy production capacity, etc. but it is tough and slow to get a good reputation, brand value and build a staff morale.

Since it is always difficult for competitors to see your intangible assets and collect them, they are the main source of your sustainable advantage. This is one of the arguments of resource-based view theory, which points to intangible assets, rather than tangible. But like any theoretical frameworks, the resource-based view is based on two basic assumptions:

1. First assumption postulate, that firms within an industry are *heterogeneous*, with respect to the strategic resources they control.

What does it mean? Heterogeneity says that skills, capabilities and resources differ between companies and using different bundles of resources leads the company to achieve competitive advantage. Because if all companies would have the same mix of resources, they also would implement the same strategies and in the and nothing would lead a company in a favorable or superior business position. Heterogeneity of capabilities and resources in a population of firms is one of the cornerstones of resource-based theory (Helfat & Peteraf 2003, p. 997).

2. Under the second assumption, these resources may *not* be *perfectly mobile* across firm.

Immobility means that in a short run resources could not move from company to company and it is almost impossible to replicate rival's resources and implement the same strategies. When the question is asked of a successful firm: "Why can't competitors do that?", the answer may be, that it has unique capabilities.

Heterogeneity and immobility are very important if organization want to achieve competitive advantages, but it is not enough if the company wants to sustain it. (Barney, 1991). Obviously, not all resources that a company has, might lead the organization to implement the strategies that improve its effectiveness and performance, whereas others might prevent valuable strategies from being implemented. Some of them have even no effect on implemented strategies at all. Thus, "firm resources" are those controlled by a firm that make it possible to implement the strategy that boost its effectiveness and efficiency (Barney, 1991).

Based on different previous works, Barney in his work classified them into three categories:

- Physical capital resources
- Human capital resources
- Organizational capital resources

"Physical capital resources" – are all material resources that used in a company (manufacturing plants, equipment, location and access to raw materials). *"Human capital resources"* include experience, training, intelligence etc. of managers and employees in a firm. *"Organizational capital resources"* include formal reporting structure, formal and informal planning-, control- and coordinating systems, which subsumes informal relationships within a company and between a company and those in its environment.

Numerous authors allocated more than three types of resources that are strongly related to the term "intangible resources". For example, (Grant, 1991) based upon (Hofer & Schendel 1978) suggested six major categories of resources: financial resources, physical resources, human resources, technological resources, reputation and organizational resources. The first two correspond to firm tangible resources, which are easy to identify and to duplicate, while the others constitute the firm's intangible resources with potential to achieve competitive advantage (Espino-Rodriques, 2006). Grant also differentiates the concepts of resources and capabilities. He notes, that "capabilities of a firm are what it can do as a result of teams of resources working together" and by identifying firm resources and capabilities and apprise the rent-generating potential of resources with regard to generate sustainable competitive advantage will provide a basic direction for a firm's strategy (Grant 1991). In other words, intangible resource that the firm has – is an asset, intangible resource that the firm does – is a capability (Galbreath 2005). Some other authors Barney (1991), Peteraf (1993) made no distinguish between resources and capabilities and use term resources to both (Combs, David & Ketchen 1999).

2.1.2 VRIN and VRIO framework

All these authors tried to define the conditions under which those type of resources can be a source of sustained competitive advantage for a firm. Not all resources are equally relevant and those giving the business competitive advantage, due to Barney, have VRIN characteristic. Thus, he classifies firm resources and examines them by four different criteria:

- value
- rarity
- imitability
- substitutability

Resources must be *valuable*, which means that they must make possible to implement strategies which improve firm performance and efficiency. More precisely, these resources and executed strategies help to neutralize threats and exploit opportunities and company itself is able to improve performance. Firm resources must be *rare*, in the sense that if valuable firm resources are available for the large number of competing firms, it is impossible to create competitive or a sustained competitive advantage with this resource. It is also crucial that a resource or bundle of resources which create competitive advantage are also *imperfectly imitable* by competitors. It could be achieved if company resources have been created or acquired through unique historical conditions, when competitors could not understand how to crate similar gain by employing similar resources. And finally, a firm's resources must not be *substitutable*, and Barney gave a clear example in his work, describing top management team of two different companies. The idea is that for example, if one company have high quality top management team which is the main source of competitive advantage and another firm seek to duplicate this, it is often impossible to copy that team exactly. However, it may be possible to develop its own unique top management team. As a conclusion, it will be two different teams which may create the same strategies and substitute each other. So, not substitutable means that no rare, imperfectly imitable and equivalently valuable resources are available (Barney, 1991). Later on, in 1995 in his work "Looking inside for competitive advantage", he introduced the improvement of VRIN model and called it VRIO framework. The change in the name refers to the question if the firm is organized to exploit the resource or capability. A more detailed description provided in Table 1.

VRIO	**VRIN**
Value: does a resource or capability enable the firm to exploit an environmental opportunity and/or neutalise a threat?	*factors include cost and value to customers*
Rarity: is the resource or capability controlled by only a small number of firms?	*e.g. unique resources (mineral outcrop; patented process etc.); preferred access (license to operate); sunk costs already written off*
Imitability: do firms without the resource or capability face a cost disadvantage in obtaining or developing it?	*Factors such as culture and history, complexity, causal ambiguity increase the cost disadvantage*
Organisation: are a firm's policies and procedures organized to support the exploitation of its (VRI) resources or capabilities?	**N**on-Substitutable: not only is it difficult to imitate, it is also difficult to substitute with something else.

Table 1: VRIN vs VRIO Framework (adapted from University of Bristol based upon Barney 1991 and Barney & Hesterley 2008)

From Barney framework, we can affirm, that RBV is prescriptive theory. It says, only resources that are valuable, rare, inimitable and non-substitutable (organization) could generate sustainable competitive advantage for the company. Several empirical studies took into consideration only intangible resources to examine an effect on firm performance. However, other suggest that different resources, such as tangible (physical, financial, etc.) may be also empirically valuable to RBV research (Galbreath, 2005). By generating high-valuable financial or physical assets with barriers to duplication, organization may generate sustainable competitive advantage. A central statement of the RBV is to analyze why one firm differs in performance from another. The answer to that question, some companies prosecute some activities in a higher level relative to the rivals (Mclvor, 2009). Thus, it is difficult for competitors to duplicate those activities. As a conclusion, the development of the company depends on its strategy. The long-term success of the firm depends on how correctly and precisely the resources and competencies are selected, the connections and work processes of the firm’s services are established, and which management decisions are made, taking into account external and internal factors. A set of strategic resources also depends on the industry in which the firm carries out its economic activity. For example, the strategic resources of Oil and Gas Companies are the permission for the extraction of raw materials in large fields or government contracts for the supply of oil and gas to other countries. Those resources form the competitive advantages of a firm, but other resources also have a certain value and play an important role. Not only availability of unique resources guarantees success of the company in the market and good financial results but their proper use by the company’s management. The RBV theory also provides an opportunity for qualitative analysis of the strengths and weaknesses of the organization. A firm with competitive advantages in a particular industry must develop and effectively manage their unique resources, because other firms can just replicate them or implement the same strategies. This approach allows companies not only to achieve a competitive advantage but also to sustain it for a long time.

Even those, the RBV enables us to get a better understanding of how managers can use resources of the company to get a better performance, which kind of resources are important and how we can use them to implement the strategies, there are still a huge amount of questions that remain unresolved and a lot of limitation, which we will discuss in next section.

From 1992 a numerous number of researches appeared in the field of this theory, some of them developed the RBV in a more diligent way by composing with other theories, such as institutional theory, transaction cost theory, etc. From the other side, the resource-based view presented a framework through which a several number of research topics, such as global strategies of multinational corporations, strategic alliances, market entries, subsidiary capabilities, start-ups in emerging economies and so on, found a logical and theoretically confirmed explanations. That is to say, that the RBV has made international business research more theoretically and practically precise (Peng, 2002). After 2000, resource-based view was applied to different economic fields, such as project management, human resource management, outsourcing and many other. It is impossible to describe the connection between all these fields, MNC’s and resource-based view in one work, because a huge amount of articles have to be analyzed. Thus, our study will focus mainly on the analysis of articles where resource-based view was applied to multinational corporations from the position of outsourcing. We decided to take outsourcing as the main concept for our analysis, because the decisions about which activities should be carry out inside of the company and which performed by suppliers are important if company want to stay competitive. Thus, in the next paragraph we will define the term outsourcing and explain the connection between RBV and outsourcing.

2.2 The concept of outsourcing and offshoring

In this section, we will explain the main concept of international outsourcing (IOS), while most researches call it offshoring, it is necessary to explain the differences between them. Further, we will represent the application of the resource-based theory to outsourcing and the main connection between them, additionally it is necessary to pay attention on transaction cost theory (TCT), as the main framework to understand outsourcing decisions. Particularly TCT and RBV have dominated as a theoretical basis in outsourcing research. In our work, the outsourcing decision is considered subordinate to the make-or-buy decision. Thus, the purpose of this part is to give a clear explanation, whether the resource-based theory has an impact on decision concerning outsourcing and how decision-makers can apply this framework to multinational corporations (MNC's). When examining such an application, the fact, that many of those decisions lead to failures should be consider.

2.2.1 Definition of outsourcing

The concept of outsourcing has been used to generate competitive advantage for a long time now and is expected to remain an important component of business strategy in future years. Starting with simple make-or-buy decisions, term outsourcing was mostly used for subcontracting of IT processes in the 1980's and moved into all areas of business sector (Barrar & Gervais, 2006 p.3; Hätönen & Eriksson, 2009 p.142). Outsourcing affects one of the core areas of business administration, especially effective use of insufficient resources. The variety of definitions of the term outsourcing were presented in different works, thus there seems to be confusion about which one is right. Basically, we can say that the concept of outsourcing emerged as a consequence of vertical integration. If a particular activity could not be implemented inside the organization, the only one possibility is external purchasing. Espino-Rodrigues (2006) in his work, made a summary of existed definition and propose a concept more related to the RBV. Most authors explain outsourcing as a behavior when decision-makers acquire activities which are not performed internally, from outside of the company. However, after analyzing different articles, author classified these definition into three types: first one, consider the outsourcing as a long-term agreement between two independent firms with exchange relationship, second differentiate activities and services which have no strategic value for the company and could be outsourced and the last one says, that outsourcing is an action through contracts, transfers knowledge, responsibility and administration. Based on those classification, author proposed an integrated definition:

Outsourcing is a strategic decision that entails the external contracting of determined non-strategic activities or business processes necessary for the manufacture of goods or the provision of services by means of agreements or contracts with higher capability firms to undertake those activities or business processes, with the aim of improving competitive advantage (Espino-Rodriques 2006, p. 52)

Thus, based on this definition we can conclude that outsourcing decisions are related to the firm's resources and capabilities.

Like in any other strategic decision, there are also advantages and disadvantages of outsourcing. The main advantages include for instance: lower costs, because you already have the professionals who will work on your tasks, thus you do not need to invest more money to find a right people. Productivity is also rise, since you can concentrate on the new projects and do tasks that are within your competence. Time saving is also one of the main criteria to outsource, because you do not need to hire new people and to train them, and of course the quality of the work when you delegate it to experts. However, outsourcing is not working in every situation, usually there are some hidden costs, loss of control and security risks which you as a decision-maker should take into account, because while outsource, firm have to rely on a third party, which may hold some private information. But in a world of asymmetric information risks increase due to uncertainty for decision making (Zhu, 2016). These factors refer to disadvantages of outsourcing. Thus, it is logical, that before taking a decision, all those advantages and disadvantages that the company may face, have to be considered.

Though, if the company take a decision to outsource, several factors which are crucial for success, should be specified. First of all, we have to differentiate *internal outsourcing*, usually organized in a form of Shared Service Centers (Hermes & Schwarz 2005, p. 27) or legally depending subsidiary, when company maintains control throughout its production processes, from *external outsourcing*, this requires an exchange of services with a company from outside, coordination through the market (Hermes & Schwarz 2005, p. 29). These both types may face different level of risk. Second, such factors as location and number of outsourcing partners is also essential while taking a decision. When a number of suppliers is high, it is easier to facilitate the outsourcing process and easier to find a suitable supplier. Regarding location, the closer the distance to the partner, the easier is to monitor the process and performance. But sometimes there are some exceptions, as for example outsourcing from developing countries, even those the distance is higher, payment for performed goods and services is much lower. If we look at the outsourcing from strategic perspective, from one side we have TCT theory, which says that the main purpose of outsourcing is to reduce costs, from the other side we have RBV theory that claims outsourcing help a company to develop new capability. To find out whether outsourcing is appropriate for organization from these theories perspective, we need to examine first which level of impact on competitive advantage activity has, the capability of suppliers to provide the activity, supply market conditions, etc. and after this, select the most appropriate relationship strategy (Mclvor 2009, p. 46).

2.2.2 Definition of offshoring

Unlike outsourcing that as a term has been used for a long time now in all areas of international business, the term "offshoring" appeared relatively recently and in many cases is used as synonym to outsourcing, even though it is not fully appropriate Daub (2009). As we already mentioned, the development and boom of outsourcing started in the late 80's when Kodak decided to delegate all its IT function to IBM. Offshoring appeared later, when international movement of services happened. It started by relocation of activities to India by American and UK corporations. This decision was followed by Central European corporations, that decided to relocate part of different activities to Eastern Europe. Offshoring was one of the most discussed topic at the beginning of 2000's as most people linked it to the job losses. But still, this term remains important to the decision makers who wants do distribute their activities global.

If we talk about outsourcing, then value added due contracting could be from external providers from home nation or from external providers from foreign nation. In offshoring happens the relocation of activities outside the home nation under different organizational arrangement. It could be: foreign subsidiaries, alliance partners or contract providers Farok et al (2011). Both outsourcing and offshoring can be used individually or together. In our case, when we do our analysis with respect to multinational corporations, it is properly to rely on offshoring, as it has direct relation to foreign nations and foreign subsidiaries.

In most cases in outsourcing purchasing of product and services comes from the same country or region where the company is located, thus such dimensions like culture and legal rules are not play an important role but in offshoring, they can be crucial. Therefore, there are some activities and services that can be outsourced but not offshored (Daub 2009, p.35). However, for example, as we know, Eastern Europe is very attractive offshoring target for European MNCs, it is related to lower labor and cost cutting and hunting for best-qualified employees that seek to be hired by international companies. From this examples, the concept of offshoring is closely related to outsourcing. However, it is important to distinguish between offshoring of services and offshoring of manufacturing products. Both this concepts have different level of risk, amount of investment, costs associated with transportation and flexibility. Thus, for example, offshoring of services has limited risk as usually it is related to limited and not critical processes, such as accounting, IT etc., but from the other side risk due to offshoring of products is much higher, as manufacturing can face some different legal and political risks. Costs due to transportation are also higher in products offshoring and almost not relevant by offshoring of services but as opposite to manufacturing offshoring where usually unskilled workers are employed, in service offshoring only high skilled employees are required. Based on the definition of service offshoring proposed by Daub (2009), we can define the term *offshoring* as

the practice of firms to internationally distribute activities, services and products that are sent back to the originating location(s) (adopted from Daub,2009 p.45).

To find a golden mean it is also important to define the term "offshore outsourcing", this kind of process is ruled by a person who is located in an offshore country. As there always differences between the home and the host country, costs due to offshore outsourcing are always lower (Ge et al., 2004). Kedia & Lahiri (2007) describe offshore outsourcing as a process when products or services acquired not from subsidiary but from external party. This work focuses on multinational corporations that have the direct connection to the development of offshoring. However, there is still no clear framework how managers of the company should define which activities to offshore with potential to achieve competitive advantages. Because in the case of failure when the company does not use the potential benefits of offshoring properly it even could lose competitive positions. It is clear that MNC's decision to offshore or outsource should be taken with accordance to the firm's whole strategy and not just with one functional area.

Hence, we can sum up, that outsourcing and offshoring are two different concepts with a lot of similarities, as they both related to acquisition and purchase of activities and processes outside the company. Thus, in the next section we will discuss the role of the two main theories (RBV and TCT) in outsourcing decisions.

2.2.3 Resource-based theory and outsourcing

The RBV framework look at the company as a set of resources and capabilities and recognizing that outsourcing decisions are related to the firm's resources and capabilities, this makes clear why we use this framework as the basic theory to explain outsourcing decisions. Those resources and capabilities belong to the strength of the company that must be supported by managers and guide the firm's strategy (Grant, 1991). As we mentioned before, from resource-based perspective tangible resources are less valuable for the company in contrast to intangible resources, because they are not the main source of competitive advantage. Thus, is better for company to outsource those tangible resources that have small strategic importance (Ferreira & Serra, 2010). From the other side, strategic approach analyzes the relationship between strategy and the environment and examines how function or operation affect firm's competitive advantage. In the context of outsourcing, it has impact on resources, the level of vertical specialization of the company's activities and thus affecting the firm boundaries. Thus, we can confirm that outsourcing is also a part of business strategy (Espino-Rodriguez, 2006).

Companies when facing a decision, have to choose which capabilities to keep internally and which to outsource. With a help of the resource-based theory as a framework, outsourcing decisions in relation to the resources the firm possess and the strategic value of those resources, can be explained. Companies can rise their performance and generate competitive advantage, by focusing on capabilities with profitable resource position and outsourcing the other processes.

This chapter describes how the resource-based view of the firm explain outsourcing decisions and what should managers pay attention to, while taking those decisions. As we mentioned above, one of the major tasks for decision-makers is to determine which capabilities perform internally and which to externalize. The RBV is alternative theory that can explain outsourcing decisions by looking at value of the capability and performance achieved in organization compared to competitors. From this perspective, VRIO framework, described above is applicable. That means, only valuable, rare, imperfect imitable and not substitutable resources are the main source of sustained competitive advantage. If these criteria do not fulfill the process, it could not be used to outperform competitors. These assumptions follow the concepts of resource immobility and heterogeneity. Whereas heterogeneity assumes that all firms in the market have different types of resources, resource immobility states that a large degree of those differences may sustain over time. Starting with a valuation in order to gain some performance, managers have to develop activities at which they are better than their competitors and which are the most efficient for the company. Based on some knowledge or intellect in connection with essential skills, company can build and maintain the best capabilities and implement the most effective core competence strategies, which in turns will lead to future innovations. These core competences are not only those, which company do well, but those which firm perform better than its competitors. Thus, they should not only be performed in-house, much more important, they should be protected by the company (Espino Rodrigues, 2006, p.53). Hence, the main task for the company is clearly identify their core competence. Prahalad & Hamel (1994) represented three characteristics that determine core competence: the ability to deliver value to final customer, possibility to extend the business and the uniqueness and differentiation from rivals and said, whether activity should be outsourced or not, depends on those characteristics. Based on this valuation firm would prefer to carry out and perform some activities internally and outsource others, less profitable (Mclvor, 2009).

Grant (1991) in his work, represented a model (Figure 3) that helps by strategy formulation. It says, that first of all it is crucial to identify firm resources and capabilities, make an analysis of strengths and weaknesses relative to competitors and identify what the company can do better compered to rivals. Then, appraise resources and capabilities in terms of potential to generate sustained competitive advantage and after that choose a strategy that will match your possibilities and external opportunities. If a strategy is selected and you have some lack of resources and capability to implement it, outsourcing decisions are needed.

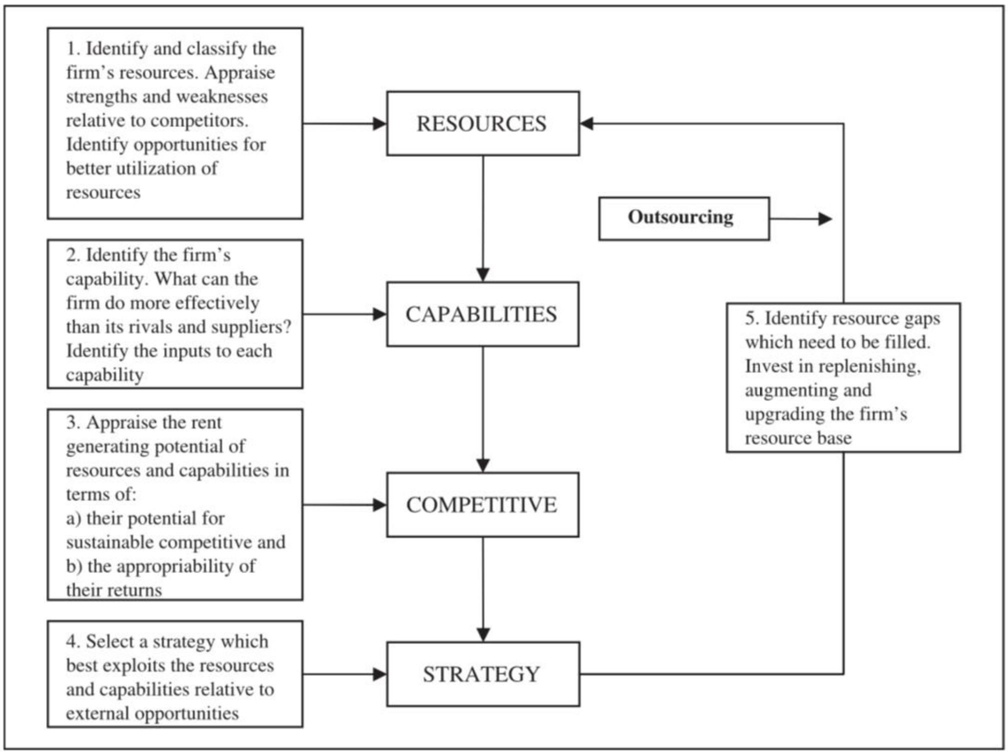

Figure 3: A resource-based approach to strategy analysis and outsourcing (Espino-Rodriguez 2006, p. 54. Adapted from Grant 1991, p. 115)

It is clear that from RBV perspective two factors are proposed: capability and core competence. Resource based view based on the assumption known as inside-out perspective and says that organization should determine and clarify the availability of internal resources before looking for them outside the organization. In other words, due to RBV, organizations gain competitive advantage first of all by their internal resources (Johannson 2004, p. 2). But what if a company does not have these necessary resources? Thus, due to Cheon, Grover & Teng (1995) from the resource-based view perspective, organization can fulfill this gap by doing such strategic decision as outsourcing. It could also be the way for company to concentrate on its core competence. Further, Grant (1991) argues that company not necessarily must possess these resources and capabilities, it can develop them by external acquisition. This external acquisition implies to outsourcing.

However, several studies offered arguments for and against outsourcing as the concept of achieving sustainable competitive advantage. First said, that if you let external specialists from outside to concentrate on certain tasks, organizations themselves can concentrate on the tasks they do best. Others argue, that outsourcing has impact on organizational innovation in a bad way and may reduce control over a company's activities, thus outsourcing may destroy competitive advantage (Gilley & Rasheed, 2000).

2.2.4 Transaction costs theory and outsourcing

The main theory that represent a framework to explain why some companies organize several functions internally and other outsource them from external parties was the transaction cost theory (TCT) (Everaert, Sarens & Rommel, 2007), introduced by Coase (1937) and developed by Williamson (1975). TCT specifies the conditions under which the level of specific investment in the economic exchange should be managed internally or externally (Mclvor, 2009). Williamson theorized that, whether activity will be internalized or outsourced depends on transaction costs. Due to Coase (1937) transaction costs arise when the company decide to buy some product or service. These costs include informational costs of price searching, contracting and negotiation and provider searching. In other words, it is the premium above the current market price. Based on the level of these costs, company have to decide where the transaction should occur, either within the firm or in the market (Neves, Hamacher & Scavarda 2014, p. 687). If transaction costs are high it is better to perform activity internally and vice versa.

For TCT framework to be practical and valuable Williamson (1975) identified two human and three environmental factors that determine transaction costs. The primary *human factors* defined are:

- bounded rationality - which means that in decision-making, rationality of individuals is limited because of the information they have;
- opportunism – when decision makers acting out of self-interest.

And from the other side three *environmental factors*:

- small numbers bargaining – few potential transaction partners;
- uncertainty – the problem which arise because of bounded rationality and opportunism.
- asset specificity – the value of asset may be included in a transaction that it supports.

For instance, due to (Williamson, 1975) three transaction attributes such as (uncertainty, frequency of transaction and asset specificity) that explain the nature of transaction, are often used to predict the efficiency of outsourcing decisions (Yang, Wacker & Sheu 2011, p. 4463).

Specific asset is one of the most valuable for the company and perform it outside the company will lead to hold up problems. (Williamson 1975; Barney 1999). Hold up problem occurs when investment in highly specific assets creates an incentive for one party to realize gains at the expense of the other (Freeland 2000, p. 33). The best historical example of hold up problem (incomplete contract) is case of Fisher Body and General Motors, that shows us the advantage of vertical integration when GM's purchase Fisher and thus reduced transaction costs and eliminated hold up issue. Internal governance structure is the only one possibility to protect organization against hold up.

Uncertainty can take two forms: behavioral and environmental. Behavioral uncertainty can arise when partners try to cheat and create hidden costs by performing ineffectively. This leads to difficulties for performance evaluation. Organization tries to minimize those transaction costs that arise because behavioral uncertainty, by choosing internal governance structure. Environmental uncertainty belongs to the ability of the company predict future outcomes. If some conditions change, partners may behave opportunistically, this leads to some additional costs related to negotiation, coordination and others. To economize on such transaction costs when environmental uncertainty is high, company will also use an internal governance structure (Watjatrakul, 2005).

And the last one, transaction frequency. Due to Williamson (1975) there is some interaction effect between asset specificity and transaction frequency. When asset specificity is low, transaction frequency has no effect on choice of governance structure, thus, transaction will be undertaken in the market because no hold up problem arises. When asset specificity is high, frequency suggests, to outsource or insource activity by using a third party. However, many researchers, failed to confirm empirically the relationship between transaction frequency and a choice of governance structure (Watjatrakul, 2005).

Depending on those characteristics, the following governance structure are possible: the greater the investment in specialized asset and the greater the uncertainties related to this transaction, the greater the likelihood that it will be execute inside the organization. As asset specificity and uncertainty increase, the risk of opportunism increases (Aubert & Weber, 2001). Usually, TCT assumes that open market is always the most efficient example but sometimes performing an activity in-house is better. Thus, in this example decision-makers will prefer firm-based governance structure due to the risk of opportunistic behavior. And for transaction with low asset specificity and frequency and/or high uncertainty, market governance (outsourcing) is preferable choice. Any variations from represented governance form by TCT may lead to inefficiencies.

Transaction costs theory is widely recognized in the literature regarding governance structure choices but fail to consider heterogeneity in firm resources. This is a main disadvantage when examining industries with differences in resources. Therefore, there is a need to use the resource-based view theory to explain heterogeneity between different firms.

Several researches describe resource-based theory as an extension of the transaction cost theory (Leiblein & Miller 2003, Poppo & Zenger 1998). Thus, as a conclusion follows to sum up that even those both theories have the same approach to explain outsourcing decisions and complement each other, they focus on two different criteria. The transaction cost economies based merely on costs and is a short-term approach, resource-based view is a long-term and includes strategic importance as one of the qualities of the transaction (Neves, Hamacher & Scavarda, 2014, p. 690). TCT try to explain why a company exist at all while the RBV looks at the company from sight of resources it has and answer the question why firms differ from each other. Neves, Hamacher and Scavarda (2014) suggest to establish outsourcing at two stages: in a first one, activities which should be performed in-house are determined, based on resource-based view, and on a second stage, those which should be outsourced and performed externally identified, based on both, transaction cost economies and resource-based view. Important to mention, based on different studies it was proved, that these both theories can explain outsourcing decisions only when they are used complementary and may leads to discrepancy if are used separately (Neves, Hamacher & Scavarda, 2014).

Chapter conclusions

Initially, the RBV theory appeared as one of the concepts to explain the origin of the company. Since the publishing of Penrose book *'The theory of the growth of the firm'* the meaning of organization became something bigger than just administrative unit, organization appeared as a combination of different productive resources. 20 years later Wernerfelt (1984) and Barney (1991) made the greatest contribution to the development of this theory, concentrating mainly on intangible resources (human resources, intellectual capital, knowledge) as the main source of competitive advantage.

In this chapter such concept as outsourcing & offshoring and transaction cost theory were briefly defined as it has direct relation to the resources of the company and resource-based theory at all. The clear understanding of outsourcing process is one of the main goals for the company that want to gain competitive advantage. Thus, the RBV has a theoretical explanation of the process which activities and resources to outsource and which to keep internally. Regarding TCT, despite the fact that RBV and TCT are two different theories, many scholars confirm that they complement each other, especially when it comes to outsourcing decision. After the briefly overview of all crucial concepts needed to our study, we can start our literature review with the focus of multinational corporations.

3. Method

The chapter 3 consists of an algorithm that has been used to do our research. This section explains which web-based searching platforms are applied, which keywords have to coexist in order to include the study and which type of study were used to do a literature review. After choosing the topic of this study, *'The application of the resource-based theory to outsourcing decisions in Multinational Corporations – a literature review'*, the first task is to start the secondary research. We begin by taking an overview of available literature on different web-based platforms, available online textbooks and library catalogue. Through this research, scientists that made the most important contribution to development of the RBV are identified.

3.1 Secondary research

The purpose of this study was to find the most important articles on this topic that have been published in leading academic journals. To do this, 7 databases (web-searching platforms) are applied, which are briefly illustrated in the table below:

Databases	Description
Cambridge University Press	Cambridge University Press is a department of the University of Cambridge and is both an academic and educational publisher. Its publishing includes academic journals, monographs, reference works, textbooks, and English language teaching and learning publications. https://www.cambridge.org/
Emerald Insight	Is a scholarly publisher of academic journals and books in the fields of management, business, education, library studies, health care, and engineering. https://www.emerald.com/insight/
Google Scholar	Is a freely accessible web search engine that indexes the full text or metadata of scholarly literature across an array of publishing formats and disciplines. https://scholar.google.com/
Sage Journals	Subscription and open access journals from SAGE Publishing, the world's leading independent academic publisher. https://journals.sagepub.com/
Science Direct	Science Direct is the world's leading source for scientific, technical, and medical research. https://www.sciencedirect.com/
WIWI Library Catalogue	Online Catalogue of Vienna University Library Business, Economics and Mathematics Library. https://bibliothek.univie.ac.at/fb-wirtschaft-mathematik/

WU Catalogue	Online Catalogue of Vienna University of economics and business. https://www.wu.ac.at/bibliothek/recherche/kataloge

Table 2: Web-based platforms of this Literature Review [1]

1 the Table contains information from web-platforms

During the searching phase, three keywords have to coexist in order to include a study, specifically at least one word for each of the following three groups:

1) Resource-based view, an inside-out approach, the knowledge-based view
2) Multinational corporation (MNC), worldwide enterprise, international corporation, transnational corporation (TNC)
3) Outsourcing, subcontracting, offshoring

3.2 Selection of journals and articles

The timeline for this literature review was constricted to the period from 1984 to 2019. The year 2020 cannot be taken into account, since the selection process of scientific works for the literature review was completed at the end of November 2019. The table below represents the Journals used for this study and informs about the number of articles selected per journal.

Journal	Number of Articles
Academy of management executive	1
Academy of Management Review	2
African Journal of Business Management	1
American Economic Review	1
Asia pacific Journal of management	1
Bell Journal of Economics	1
Brazilian Administration Review	1
Business Management Dynamics	1
California Management Review	2
Competitive Strategic Management	1
Decision Sciences	1
Economica	1
Group and Organization Management	1
Harvard Business Review	3
Hawaii International Conference on System Sciences	1
International Business Review	1
International J. Management and Decision Making	1
International Journal of Management Reviews	2

International Journal of Pharmaceutical and Healthcare Marketing	1
International Journal of Production Economics	2
International Journal of Production Research	1
Journal of Business Strategy	1
Journal of European Industrial Training	2
Journal of International Business Studies	2
Journal of International Management	2
Journal of Law and Economics	1
Journal of Management	6
Journal of Management Studies	2
Journal of Manufacturing Technology Management	1
Journal of Operations Management	2
Journal of Purchasing & Supply Management	2
Journal of Strategic Information System	1
Journal of Supply Chain Managament	1
Logistics and Transportation Review	1
Management International Review	1
Management Science	1
Managerial and Decision Economics	2
Organization Science	1
Producao (Sao Paulo. Impresso)	1
Production Planning and Control	1
Sloan Management Review	2
Strategic Change	1
Strategic Management Insight	1
Strategic Management Journal	12
Supply Chain Management: An International Journal	1
Technovation	1
The Academy of Management Review	1
The Journal of Applied Business Research	1
Tourism management	1
Transition Studies Review	1
in summ 50 Journals	**80**

Table 3: Journals of this Literature Review

For this literature review three different types of study were selected, namely: ‘empirical studies’, ‘conceptual paper’, ‘literature review’.

Most of articles that we used are empirical studies. This kind of study provide an investigation in specific topic, all results are tested with hypotheses and based on collected data. This include case studies – detailed examination of a particular case. The conceptual papers provide the most important model and framework and better understanding of the topic, usually the main purpose of this kind of study is to give an answer to controversial questions without collection of data. And the last type is literature review, the purpose is to summarize the results from different scholars and find the difference between them.

4. Current-state literature review

The first part of this chapter aims to overview and provide a deeper analysis of existing articles regarding the RBV theory as well as theoretical and methodological contributions to a particular topic. In Chapter 2 we defined the main idea of resource-based view, mainly based on work of Barney (1991). In this chapter we will provide the results obtained from different research studies with regard to this theory and application to MNC'S.

To better understand the development of the RBV we will represent all important works regarding the development of the theory and summarize it in the Table, where the main objectives, results and contradictions will be represented. The aim is to show the reader how the resource-based theory was developing through time. After giving the clear understanding of the theory, we will show how it could be applied to MNC's, based on different case studies.

The second part of this chapter aims to explain the application of the RBV to outsourcing decisions in MNC. Thus, different empirical articles were selected, from which we will analyze which hypotheses and propositions were accepted and which were rejected and collect the main results and findings.

4.1 The development of the resource-based view

The RBV emerged as a complement to the industrial organization (IO) view represented by Porter (1979). Both perspectives try to identify the source of competitive advantage. While the IO adopts "outside-in" perspective, a situation when the market and industry in which a company operates have an impact on performance of an organization, the RBV represents "inside-out approach" and postulates that internal characteristics of the organization have an impact on performance (Kraaijenbrink, Spender & Groen 2010). After works of Wernerfelt (1984) and Penrose (1959), the resource-based approach attracted the attention of scholars from a variety of perspectives. In some way it complements organizational economics (agency theory, property rights, transaction cost economics) as well as industrial organization analysis. The RBV approach connected with agency theory because the minimizing of agency costs has an impact on the deployment of resources (Castanies & Helfat 1991). The RBV is also linked to property rights since, it makes firm resources valuable and valuable resources increase the precision of property rights. Finally, resource-based theory complements transaction cost economies because the combination of resources is determined by economizing of transaction costs (Mahoney & Pandian 1992). As in the IO theories, in the resource-based approach the main goal for the company is to gain above-normal returns and gain competitive advantage. Obtaining such returns requires either that product is more attractive to the final buyers compared to substitutable products or the firm make identical product in comparison to competitors with lower costs (Conner 1991, p. 132). The following Table 4 represents the main studies in resource-based theory and its development with regard to different theoretical focuses.

Table 4: Summary of research related to the development of the RBV

№	Theoretical Focus	Studies	Main question/objective	Main results
1	Competitive advantage / sustained competitive advantage	Wernerfelt (1984)	analyze organization from resource side rather than from product side	apply resource position barrier that is not used by other organization in order to get high returns in a long run
		Rumelt (1984)	define institutional capital based on strategic resources and the path to gain competitive advantage	the concept of 'isolating mechanism' protect firm resources, capabilities, skills and knowledge from competitors
		Grant (1991)	creation of single resource-based framework with useful implication	framework begins of resources identification, appraisal of strengths and weaknesses, identification of capabilities, defining rent-generating potential, strategy selection and identifications of resource gap
		Peteraf (1993)	to develop a general model of resources and firm performance	four conditions underline sustained above-normal returns and SCA: 1) resource heterogeneity 2) ex-post limits to competition 3) ex-ante limit to competition and 4) imperfect resource mobility

		Barney (1991)	how to protect existing resources from competitors	only resources that are valuable, rare, imperfectly imitable and non-substitutable could generate sustainable competitive advantage for the company.
		Kraaijenbrink et al. (2010)	to review and assess the critic against the RBV from existing literature	the authors rejected a lot of critical assumptions that have been made relatively the RBV, as those that do not have strong empirical support. And agreed with some others, mainly that definition of resources still is not clear, the value of resources is too indeterminate and VRIO framework is neither necessary nor sufficient.
		Clulow et.at (2003)	which strategy implementation lead to superior performance	identified a “key” resources of successful firms and explained how these resources help to sustain competitive advantage.
2	Dynamic capabilities	Teece et al. (1997)	to build a theory of firm performance and illustrate the main elements of the dynamic capabilities approach.	‘dynamic’ means to renew competences and integrate them to achieve consistency with changing environment, term ‘capability’ means ability to define, adapt and integrate resources, skills to that environment.
		Teece et.al (1994)	to identify classes of factors that will help to determine firm’s dynamic capabilities.	three categories of factors: 1) processes – the way things are done (routines), 2) position – relationship with supplier, customer base, technology capacity, intellectual property 3) path – strategic alternatives and opportunities.

		Helfat/Peteraf (2003)	to introduce a new concept that expands the resource-based view with relation to dynamic capabilities: the capability lifecycle (CLC).	capabilities like products have different life cycle stages and are followed by different branches. Each capability can meet different stages and as result branches. Based on this management of the company can implement strategies that differ from competitors and are difficult to replicate or substitute.
3	Rents	Castanias/Helfat (1191)	to analyze the role of top management in generating firm rents.	the managers of the company have superior skills: generic, industry-related and firm-related, that are the main source of competitive advantage and generate rents not only for them but for the company and shareholders as well.
		Mahoney/Pandian (1992)	to develop the valuable contribution of the RBV approach	the debate between such research perspectives as: industrial organization, organizational economics and strategy has been created and a framework for conversation between these perspectives was provided
		Lavie (2006)	to examine applicability of RBV assumptions in net-working environments.	the proposed model expands and complements the resource-based theory and explain how companies can generate rents competitive advantages within interconnected firms (alliances).
4	Existence of the firm	Conner (1991)	To analyze the difference between RBV and industrial organization economics.	The RBV approach has some similarities and differences with IO theories. The uniqueness of the RBV has been proved.

5	Core competencies	Prahalad/Hamel (1990)	the impact of resources on success	for the first time term “core competence” was used. Resources and capabilities the main source of it and are the main component for the company to get strategic advantage. But in order to succeed against the competitions, management must define and exploit these core competences in a best way.
		Locket et al. (2009)	to examine the development of the RBV with emphasis on empirical evidence and practical insights	authors found a positive relationship between tangible assets and performance in a combination with other resources.
6	Organizational capabilities	Ulrich/Smallwood (2004)	how to evaluate organizational capabilities and make capabilities audit.	the leaders of the company have to identify which capabilities are crucial in order to implement important strategies. The best way to do it, is to conduct a questionnaire among inside and outside groups and based on the results create a team that will be responsible for delivering those capabilities to the company.

4.1.1 RBV and sustained competitive advantage

As we mentioned in a part 1 Wernerfelt in his work in 1984 was the first one who look at the company in the sense of resource possession rather than their outputs in terms of products. Based on Porter’s five competitive forces (Porter, 1979) which were originally designed to analyze the products only, Wernerfelt on his paper try to cover bargaining power of suppliers and buyers and threat of substitution and apply them to resources by representing the resource-product matrix. He argues that by identifying, acquiring or developing certain resources, companies can increase their profitability (for example, by developing know-how or obtaining a patent). In addition, in order to remain competitive, companies must balance the exploitation of existing resources and development of new ones. Wernerfelt develops the idea that resource position barriers are similar to the concept of entry barriers and by application of this firm can improve competitive positions.

In Chapter 2.1 we represent the term competitive advantage and sustainable competitive advantage and the main difference between both terms. Thus, resources as the main source to achieve sustainable competitive advantage are exemplified by the work of Barney (1991), Peteraf (1993) and Rumelt (1984). These authors emphasized the need to protect the firm superior resources from competitors. Barney (1991) emphasize that only unique strategies that are not implemented by other companies can secure sustained competitive advantage. What makes these strategies unique? Barney points here at the level of resources the company needs to access and control in order to implements these strategies (Foss & Knudsen 2000). These resources as we mentioned in Chapter 2 must conform some necessary characteristics: valuable, rare, non-imitable and non-substitutable. Grant (1991) as well indicates the important determinants of resources and capabilities that are able to generate sustained competitive advantage. As opposed to VRIO framework, Grant highlighted four different characteristics (durability, transparency, transferability and replicability). However, by analyzing them we can make a conclusion that they are authentic to those represented by Barney (1991) (value, rarity, imitability and substitutability). Grant (1991) also emphasized the difference between firm's internal resources and capabilities. Resources are inputs into the production process. These includes brand names, patents, skills, etc. Capabilities are the possibility for a team to use these resources to perform some task and activity.

Cluvov/Gerstman/Barry (2003) analyzed the RBV theory and SCA of financial services firm that out-performed the market and focused mainly on its key resources. Authors took into consideration resources which were identified as "key" in a study of Fahy (2000), namely intangible assets (intellectual property, client trust, reputation, network/communication system and databases) and capabilities (managerial skills, organizational history and culture, learning-by-doing and team-embodied knowledge). The main research question is what impact these key resources have on firm ability to sustain competitive advantage. In industry like this, where competition can move very fast and barriers to new entry firms are very low, development of key resources and capabilities by management is one of the main tasks for the company as it helps not just to survive but outperform competitors. By interviewing senior managers in

Australian financial service companies, authors confirmed the key elements proposed by Fahy (2000) and modified them based on the obtained results. They came up with conclusion that, tangible assets are very easy to identify and duplicate, thus they are not related to key resources, however, are fully appropriated by the firm. The value of intangible assets depends on reputation and client trust, they are difficult to imitate, and their value remains with a company due to resource inimitability. Value of capabilities are included in the culture of the company and employee skills and knowledge and their causal ambiguity and tacitness create barriers to duplication.

4.1.2 RBV and economic rents

One of the main points of the RBV is that economic rents increase if company possesses resources with VRIO characteristics. A practical framework developed by Grant (1991) (a resource-based approach to strategy analysis), which later on was applied to outsourcing (Espino-Rodriguez, 2006) and connects all important equivalents for strategy formulation by looking at firm's resources and capabilities relative to external opportunities. This framework also emphasizes the importance of resources and capabilities by generating rents for the company and ends up by identifying the resource gaps which need to be filled. The analysis of the rent-generating resources and capabilities concludes that they should be: durable, difficult to identify and understand, imperfectly transferable, difficult to replicate and in which firm have clear control and ownership (Grant 1991, p. 129). The purpose of this framework is to be able to analyze all resources and capabilities which are able to generate rent for the company and sustained over time and find a resource gap that need to be filled to exploit to the maximum firm characteristics.

Peteraf (1993) was one of the first who starts to investigate the condition under which the firm can get sustained above-normal returns. She was following previous researches and agrees that resources should have some characteristics to be useful for the company but her classification of resources somewhat different from Barney's (1991) and Grant (1991). Moreover, the relevant level of analysis takes individual resources rather than strategies (Foss & Knudsen 2000). For competitive advantage to exist four conditions have to be met:

1. *Heterogeneity* – refers to efficiency differences across resources, and possession of resources that competitors do not have.
2. *Imperfect mobility* – relatively specific for the firm and less valuable for others.

And competition should be limited in both ways:

3. *Ex-post limits to competition* – somehow related to Barney's (1991) condition of non-imitable resources.
4. E*x-ante limits of competition* – resources should be acquired at a price lower than discounted net present value in order to generate rents for the company. For example, when the company found some geographic location that will reduce production cost and if the firm can protect this location from competitors in the long run, it will generate superior resource. Thus, the idea here is to limit competition (Schmidt & Björn 2010, p 145).

By holding these valuable resources from a resource-based perspective company is able to create economic value (generate rents). Peteraf (1993) emphasizes two types of rents:

- *Ricardian rent*, taking into account that resource and capabilities are heterogeneous across firms, may reflect the possession of superior productive factors which are in limited supply. These superior resources have lower average costs than other firms what helps them to earn ab-normal profits in the form of rents. It could be location advantages, valuable land, patents, etc. (Mahoney & Pandian 1992).
- *Monopoly rent*, the model of market power. May be achieved when barriers for existing competitors are high or when there is some protection by government (Mahoney & Pandian, 1992, p. 364).

Castanias and Helfat (1991) and Mahoney and Pandian (1992) distinguish between:

- *Ricardian* and *Quasi-rent* – the difference between the first-best use and the second-best use of the resource.
- *Enterpeneurial* (*Schumpeterian*) rent, as a risk taking in uncertain environments.

The company is able to generate rents not only because it has better resources than rivals, but rather they can make a better use of those resources (Penrose 1959, p. 54). However, it is not enough for the company to generate and sustain rents, it should make some "barriers to imitation" (Mahoney & Pandian, 1992), in other words, protect resources and capabilities from competitors. Thus, Lavie (2006) for example, investigated, how firms creating alliances can get a value from resources that are not controlled or owned by its internal organization. Firm alliances appear from partnership between two independent companies, when two of them are not able to acquire needed resources through the market or create these internally (Franko & Haase, 2012). Based on conditions that firm resources should be homogeneous and imperfectly mobile author analyzed whether these assumptions hold in networked environments. Thus, the first condition is critical as heterogeneity connected more to a company which works as independent entity, however by making asset flows easier between interconnected firms, alliances may facilitate to resource heterogeneity. Second condition is also important as alliances can mobilize resources that usually considered as immobile. When we look at some focal firm and its alliance partner, we can see which kinds of rents both of them can generate Figure 4. This also show us, the resource-based competitive advantage of a focal firm when it enters the alliance.

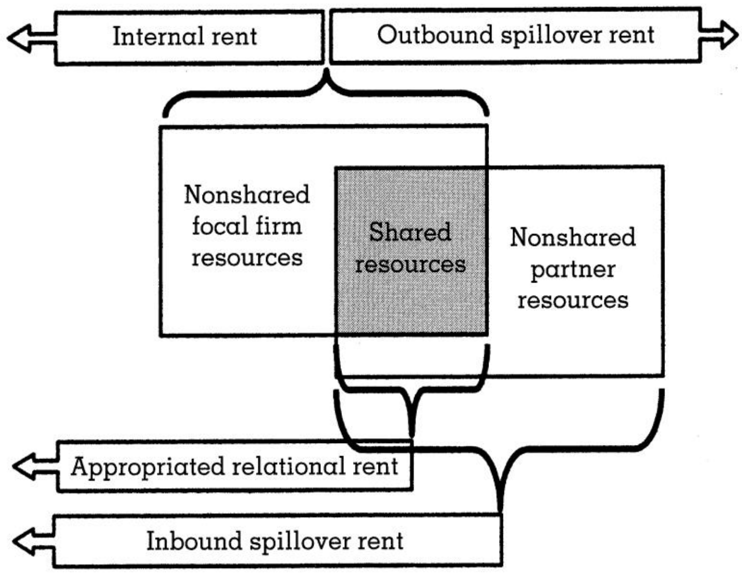

Figure 4: Composition of rents extracted by the focal firm in an alliance (Lavie 2006, p. 644)

Hence , *internal rent* expresses two types of rents generated by focal company, which we already mentioned above: Ricardian resulting from scarcity and quasi rents resulting from resource specialization. *Appropriated relational rent* can be extracted only from shared resources but not when two firms exist individually. *Inbound spillover rent* and *outbound spillover rent* extracted when company get access to partner's resources and eventually improve its competitive positions. However, when only one company holds this objective, it is said to be acting opportunistically. The proposed model complements and expands traditional resource-based view as it focuses not just on internal resources but emphasizes the value of external ties.

How to identify these resources and make a better use of them? Castanies and Helfat (1991), for instance, in their paper confirm that the top management itself is internal firm resource that is rare and difficult to imitate and is the main source of sustained competitive advantage. Thus, they tried to investigate how this resource can generate rent for the company by examining different managerial skills. In addition, large attention is paid to the relationship between shareholders and managers. Despite the fact that agency problem can occur, by applying superior manager skills, top managers may earn rent not only for themselves but for the shareholders as well. This managerial skill has “isolating mechanism”, term suggested by Rumelt (1984) as a necessary condition for sustained competitive advantage, which protect firms from imitation and protect their rents. Because it is difficult to duplicate and codify managerial know-how, that creates this isolating mechanism (Castanies & Helfat 1991, p. 162). Of course, not all managers are able to generate Ricardian rent and sustained it for a long time, only those with a superior skill that is not widely available.

4.1.3 RBV and core competence, dynamic and organizational capabilities

Prahalad and Hamel (1990) invented a term “core competence” and in their study paid attention to the management of the company. This core competence has three characteristics: potential access to different markets, inimitability from competitors and ability to create customer value. The value of core competence depends on how good the company is in term of resources, relative to its competitors and how difficult is for them to replicate these competences (Tecce, Piasano & Shuen 1998). Prahalad and Hamel (1990) also analyzed how Japanese firms such as Canon, Honda, Sony, etc. were able successfully enter new markets and quickly react to environment changes. They came up with conclusion, that this companies had inimitable core capabilities – a collective knowledge of how to coordinate skills and technologies. Thus, the success of Japanese firms was found in management ability to connect skills and technologies and convert them into competencies.

Teece/Pisano & Shuen (1997) “dynamic capabilities” approach make an accent on management capabilities and skills which are difficult to imitate. The idea of factors that help determine dynamic capabilities and competence (processes, positions and path) that first was represented by Teece and Pisano (1994) and then expanded in 1998. Processes consists of three parts: coordination/integration (the way managers coordinate and integrate activities inside the company), learning (involve individual skills and enables identify new opportunities and perform tasks quicker and better) and transformation/reconfiguration (ability quickly react to the changes in the environment). To positions count not only internal and external processes but also firm specific assets. They distinguish between: technological (know-how), complementary (related assets that needed for production of new products and services), financial (cash position and degree of leverage), reputation assets (intangible assets), structural assets (structure of organization), institutional (regulatory system, laws, intellectual property regimes, etc.), market assets (product market positions) and organizational boundaries (the degree of integration (vertical, horizontal and lateral)). Last factor path (the way firms are doing business currently and a path they choose for future). Teece and Pisano (1994) invented the term "dynamic capabilities" and paid attention to relationship between changes in the environment and profitability. These two aspects were not under investigation in the previous works. The term "dynamic" refers to the changes in the environment and the term "capabilities" emphasizes the ability of strategic management to integrate and adapt firm's resources, skills and capabilities to those changes.

Helfat and Peteraf (2003) argue that heterogeneity of resources is the main cornerstone in the resource-based theory. However, it lacks to explain how this heterogeneity arises. Authors in this article try to convince, that the capability lifecycle (CLC) is able partly explain it and make it easier for managers to understand how firm resources and capabilities can create competitive advantage. As we already know from Barney (1991) resources and capabilities should bring the company sustained competitive advantage, thus it is important to understand that competitive advantage may rise and fall over the time. Such as products have the product life cycle, capabilities have the capability life cycle with three main stages founding, development and maturity. In the founding stage – the creation of new capability begins. Important to mention that this capability can be new for the company but probably not new for the word. This stage mainly depends on the formed team, their skills and human capital. In the development stage, team by attracting organizational learning, firm can develop a capability or try to imitate already existing one. When the development of capability ends, the maturity stage of lifecycle begins, thus not all capabilities are able to reach the maturity stage. Before or after maturity stage, capability can also change a trajectory and go into six branches of the capability life cycle: retirement, retrenchment, renewal, replication, redeployment and recombination. For example, the company can replicate a capability by going into another geographic marker or new country or combine capability with another capability and transfer them into a new market. All these attempts could be even more profitable than creation of totally new capability. As each company and management choose their own path it is very difficult for competitors to replicate it. Thus, the CLC explains that capabilities can arise and shift over time and this transformation leads to heterogeneity in performance across firms and heterogeneity in capabilities.

Ulrich and Smallwood (2004) also looked at organizational capabilities that are the key intangible assets and described the way management of the company can evaluate them. They identified eleven types of capabilities that successful companies should have:

1) Talent – competent people. Company can hire new talented staff, develop skills from existing employee, borrow thought partnership, remove those that have no value for the company and keep those who are the best.
2) Speed – quick reaction to changes. When organization is able rapidly react to new opportunities.
3) Brand identity and shared mind-set – when employees are able satisfy customers need and both have the same level of alignment.
4) Accountability – apprise high employee performance.
5) Collaboration – working across boundaries, gain efficiency through economy of scale or through sharing ideas and talent across boundaries.
6) Learning – continuous improvement, by looking at competitors, changing location or a leader, hiring new employees, etc.
7) Leadership – an example from McKinsey, whose employees very often become a CEO of some other large companies. That show a clear leadership brand of consulting company.
8) Customer connectivity – concentration on target customers.
9) Strategic unity – very important for employees from different levels to know what the strategy of the company is.
10) Innovation – related to all aspects of organization process from products till customer service. All employees, customer and investor benefit from innovations.
11) Efficiency – ability to manage the costs.

Based on those capabilities, authors with help of case study tried to conduct a capabilities audit. However, it is obvious that one company is not able to get the best score in all of them. Thus, the leaders should choose no more than three (the most important for the company) and make at least two of them world-class (Ulrich and Smallwood 2004, p. 126). The idea here is not to develop and boost weak capabilities but to identify and strengthen those which are important for strategy execution. Based on the results, such an audit can differ between companies but important for leaders is to follow some basic steps: identify which part is responsible for executing the strategy, it could be the entire firm or some division, adapt mentioned capabilities to organization requirements, collect data, not just from leadership team and employees but from different groups from outside the company, it could be customers, investors, suppliers, than, identify the most important capabilities and the last step is to create a plan and chose the team that will deliver those critical capabilities to the company. This audit can help to determine company's strengths and weaknesses and for customers, employees and investors to recognize a firm's intangible value.

4.1.4 Limitations of the RBV

After study of Wernerfelt (1984) and Barney (1991) the RBV became the main theory in strategic management and was applied to different fields in management process. However, after careful analysis of existing literature we can confirm that the theory was a subject of a considerable criticism in period from 2000 – 2010. For example, Kraaijenbrink et.al (2010) analyzed, reviewed and estimated the principal critiques evident and divided it into eight categories. Only three out of eight have been supported by authors. First of all, it tells that manager should obtain and develop valuable, rare, imperfectly mobile and not substitutable resources but it does not tell how. Second, the RBV has limited applicability and can be applied only to big corporation with a great market power since small companies usually do not have such a big amount of needed resources to get SCA (Connor, 2002). Here we also can refer to Miller's (2003) argument that only company that already has VRIN resources can acquire some additional needed resources, otherwise, competitors could do the same with equal easiness. Some authors argued that the RBV implies infinite regress. Next argument, that SCA is not achievable, since companies operate in the dynamic and changing environment, there is always a need to adapt to new challenges and changes faster than competitors. Some authors (Foss 1996a, 1996b) supported by (Mahoney 2001, Priem & Butler 2001a) in their works tried to prove that the RBV is not even a theory of the firm at all. All these critiques were rejected by Kraajinbrink et al. (2010) as some that are incorrect and irrelevant and has been supported with strong arguments. The most important arguments are that RBV seek to explain why some firms outperform others and was never designed to provide an instruction for managers. Firms are not passive as well, they can change their strategies, resources and adapt them to new environment faster than competitors as they have dynamic capabilities. Authors accept the fact that no SCA can stay with a company forever but in a short run there is always a possibility to achieve it. However, there are some critiques that lead to more serious problems. The axiom that SCA can be achieved only with VRIN resources and when there is an existence of appropriate organization has been subject to huge critique, since no empirical research generate a strong support to this. Such authors as Foss and Knudsen (2003), argue that only uncertainty and immobility are necessary to achieve sustainable competitive advantage, any other conditions are additional or complement. The possession of resources is not sufficient to sustained competitive advantage there is also a need to deploy them. Also, some authors argued that the value of a resource is too indeterminate, this explains the critique that RBV is tautological theory and there is no clear definition of resources. And the last one tells us that the definition of resource is unworkable. Testing the resource-based theory empirically, in practice may be challenging. Referring to the fact that often empirical researches were made in different industries and with different hypotheses explains why it is difficult to compare the obtained results.

Work of Lockett et al. (2009) also summarized the main results in the RBV over the last 20 years and gives a critical assumption to some of them. First, they found a gap in challenges that managers of the company face with regard to resource identification and development. Second, they indicate on the importance of intangible assets as significant source of competitive advantage. First characteristic they discussed in their study was “resources and the role of the managers”, the way manager of the company sees resources become important in such elements of the RBV as: resource functionality, resource recombination and resource creation. The important role of managers is the most profitable use of existing resources as well a clear understanding of the strategies used by competitors. This ability refers to the element of resource functionality. The idea of “resource recombination” is defining in the literature on capabilities (Lockett, Thompson and Morgenstern 2009 p.14). Ability of managers to recombine resources, creates new outputs for the company. And “resource creation” that refers to ability of managers to acquire new resources and use them in the different way as competitors. Concerning tangible assets, all resources of the company are important with regard to value-adding processes. Thus, resources are not used in isolation, there are always possibilities to combine some resources with other existing resources and effective deployment of tangible and intangible assets is a key to achieve competitive advantage. This relationship between resources and firm performance described Newbert (2007). In his work 55 studies has been analyzed with the resource-performance linkage and found that only half of those studies offer positive support between them and support the RBV predictions. Author also found an evidence that combined resources are more likely to explain the link between resources and performance rather than resources used in isolation.

4.2 The application of the RBV to MNC's

After representing the main concepts of the resource-based view above, next aim is to show how the theory could also be used in practice. For this, we chose different case studies and will show the examples how the RBV was applied to MNC in different countries and different industries. We will analyze in more details already existing case study from Indian pharma multinationals, Finnish high-tech manufacturing MNC's and Australian motor vehicle manufacturing industry. Case studies may serve different research goals, in our case important is to show how the competitive advantage of the MNC could be analyzed from RBV perspective.

Indian pharma multinational

We will start our analysis from work of Reddy & Rao (2014) where they analyzed how firm specific resources can bring sustainable growth for organization over the years. Taking Indian pharma MNC's for their case study and using two dimensions of RBV, namely, causal ambiguity – limiting condition that is helpful by explaining differences in performance among organizations (Lippman & Rumelt, 1982) and helps protect competitive advantage (Reed & Defillippi, 2016), and the second one is social complexity – a human behavior in different complicated circumstances.

After the emerging of outsourcing phenomenon and recognition of all advantages and disadvantages, many companies, including pharmaceutical, moved their manufacturing activities to India and China. The reasons for this are cost advantages and implementation speed. Such arrangement from India's government as Patent Amendment Act, 2005, plaid crucial role as well, as it helped all MNCs protect their patent rights in India (Dubey J & Dubey R, 2010). But by considering all advantages, not all companies in India were able to exploit given opportunity but only those that were able to take the decision faster than competitors and at a lower cost. Authors applied the RBV framework in their case study because this theory can explain how to gain competitive advantages from superior resources. Due to privacy reasons, the Indian pharma company was not named. What we know that the revenues of the company are over 2 bn USD, the organization owns following teams: research and development, project management, marketing and business development, analytical chemistry, chemical engineering, those belongs to firm resources. Data collection was conducted in the form of interview with managers from different departments.

The resources the company had are imperfectly imitable, among all firms operating in India in this industry, only few of them had all this kind of resources and capabilities, and the reason why they could not imitate them are causal ambiguity and social complexity. There is some relationship between resources, capabilities and competitive advantage and this relationship is causally ambiguous, because first of all the work between managers, suppliers and different teams make this resources unique, second, managers are not aware and it is difficult for them to estimate whether the combination of this resources or their application alone help company to gain sustained competitive advantage and usually there are a lot of different companies attributes that enable to gain the advantages from resources. Due to social complexity firm resources and capabilities are difficult to imitate and such factor as company's reputation built over long period of time plays an important role. The represented analysis shows that competitive advantages depends on resources and capabilities of the company in contract research and manufacturing services business environment and social complexity and causal ambiguity make it difficult for the rivals to compete with indicated companies (Reddy & Rao, 2014).

We can see how important is, the role of management in the company and its reputation, managers may use the RBV framework to analyze how their HR system operates with suppliers and find the ways in which it can be improved to become a source of sustained competitive advantage (Mugera 2012). Of course, the application of the RBV framework was not investigated in all industries yet, but using it, managers of the company can arrange and find ways in which they can change and improve their human resource practices and make them a source of sustained competitive advantage.

Finnish high-tech manufacturing MNC's

Liu & Liang (2014) chose this industry and country for their research, as Finland is one of the most competitive country in the world, especially in the high-tech field and well known country in electronics manufacturing and information technology (World Economic Forum). Authors took eighteen small and medium enterprises and multinational corporations for their Data, companies that have more than 20 years of experience. The aim was to compare the sustained competitive advantage and performance of these companies during the crisis in 2008 and after that. The RBV was applied to apprise and develop their competitive advantages. The sample include not just MNC's but also their subsidiaries from different industries such as IT, chemical, electronics, energy, telecommunication etc.

It is obvious from theoretical point of view, that RBV is a useful framework to evaluate competitive advantages but still is little know how it can be used in practice. Previous works pointed out that it is important to develop dynamic capabilities and quickly respond to customer needs and market changes (Haeckel 1999). Building an agile manufacturing system could actually help quickly respond to those needs (Liu & Liang 2014). However, in rapidly changing environment, based on firm's dynamic capabilities there is a need constantly review and improve strategies and technologies. Authors tried to show whether by resource allocation firms can improve and sustain their competitive advantages and evaluated SCA based on firm's resource allocation. The study shows that firms applied different strategies during the crisis and tried to fit their resource allocation to their manufacturing strategies, but the most momentous changes happened after crisis due to the smaller market risk. Because of this small risk, companies wanted to overtake lost possibilities and inquire new source of SCA. But this turn out, that their allocation of resources was not ready to meet new strategies and managers of these organizations faced the situations when the quick respond to the weaknesses was needed. However, the results indicates that for MNC was easier and less costly to face this challenges then for SME and optimal resource allocation has positive effect on operating performance and non-optimal resource allocation has negative effect on company's competitive advantage (Liu & Liang 2014, p. 1032), it was also proved that dynamic capabilities have an impact on SCA. The conclusion is, that with the help of RBV framework company can examine which strategy can convert firm capabilities into better performance. Hence, it is important to recognize strategic opportunities and have good understanding of company knowledge and technology (Duncan 1998).

Australian motor vehicle manufacturing industry

Cavanagh & Freeman (2011) in their study dedicated significant attention to MNC's subsidiaries, which previous were served just as access to different locations and resources. Now, many companies see the subsidiary as key provider to new technology and innovation. The focus was made on the role subsidiary plays in MNC and research was taken from Australian motor vehicle manufacturing industry. The RBV framework was used to identify how resource development influences role of subsidiary in mentioned above industry. Due to Birkinshaw (1995) for subsidiary to be able generate competitive advantage, it should possess some 'specialised resources' that are valuable, not available elsewhere and leveraged across the organization.

The study was built in the form of single case study, focusing only on one industry and data was collected from different stakeholders, government, manufactures, etc. in interview form. The results show that subsidiaries can develop broad (improvement in design, engineering, etc.) and narrow level of specific resources (better quality, efficiency, flexibility) and were divided into different categories depending on the ability to develop new resources. These categories were derived from the study of Andersson and Forsgreen (2000) and tested by Cavanagh & Freeman (2011). The first category is 'implementer' – this kind of subsidiary uses the resources from headquarters and not possess their own special resources. Then, 'local innovator' – developing minor level of new specific resources, only those that are needed to adapt products to local market. 'specialized contributor' – subsidiary that developed specific resources while focusing on quality and efficiency. Due to this type, the study of Cavanagh & Freeman (2011) extended the RBV by showing that subsidiary and headquarter could possess different levels of resources. The last type is 'center of excellence' – when it has some certain amount of responsibilities within MNC. The results show, that by giving the ability for subsidiary to take responsibilities and giving them more control, may increase its position in MNC and leads to development of different specific resources.

American multinational investment bank and the RBV

Donnellan & Rutledge (2019) analyzed the consequences of JPMorgan Chase (multinational investment bank) management decision to use RBV framework for achieving their goal to become number one commercial bank in the USA. The aim was to suite available resources with planned strategies. The management used RBV to identify gaps in internal resources, capabilities and skills by doing an inventory among all employees and came to conclusion that there is insufficient amount of available resources to ensure the implementation of their strategies. The decision concerning training and external recruitments was made and in 2 years bank employed new key employees and improved skill of existing staff. The second step was to determine existing gaps in their competency, thus the decision to expand their core operations across country was made with help of mergers and acquisitions. While applying needed strategies, JPMorgan also used effectively outsourcing from India and Bangalore. After careful analysis Donnellan & Rutledge (2019) made a conclusion that even the theory was criticized by different scholars, it offers useful guidelines of how to get sustained competitive advantage.

4.3 RBV and outsourcing decision in MNC’s

The international company has the opportunity to develop and acquire resources in external diverse environments that are not available in the home markets. However, not all resources can be acquired externally and not only because the offshoring. Such practice as mergers and/or acquisitions are also quite popular among MNC’s as the possibility to exchange different kind of resources. The difference in this case is that these resources are not transferred, purchased or sold from the third party but from the new emerged organization. This is relevant for our following research, as sometimes, multinational corporations do M&A to turn target into offshoring subsidiary Duab (2009). Before starting our research in this field, we also need to represent some limitations regarding RBV in international context. First of all, countries differ from one another because of culture, language, legal policies, thus, the coordination of resources in international environment become challenging. Secondly, in international context the definition of valuable resources differs, they could be rare in one country but abundant in other. However, after careful analysis of existing literature of RBV and international business we still can be aware with the fact that this theory is appropriate for analysis of different activities in MNC’s. Thus, we will show it in this part while analyzing how it could be applied to outsourcing/offshoring decisions in MNC. We will start from the determining the level of relevance of the theory while taking outsourcing decisions and then analyze it independently in manufacturing offshoring and service offshoring firms.

4.3.1 Relevance of the RBV for outsourcing decisions in MNC

The resource-based view, is one of the most influential theory in the area of outsourcing/offshoring decisions and in this section we will analyze different studies in this field and relevance of the RBV by implementing this decisions. The offshoring decisions consists of two concepts, company can either outsource or going offshore (Grossman and Helpman, 2005). When the organization decide to offshore some activities, configuration of resources changes. These resources could be with different strategic value and once they are moved into offshore the purpose of it is to provide some services to the host company. We assume, that resources of high strategic value deliver high strategic services for the company and vice versa. As we know from the resource-based theory it is not enough to have these strategic resources with VRIO characteristics to gain competitive advantage it is important to make them useful (Penrose, 1959; Barney, 1991). This requires good coordination of existing resources. Thus, we will show in this chapter that RBV has explanatory value for offshoring decisions as it helps to understand how resources with different strategic value can be coordinated (Duab, 2009). However, when analyzing the application of the RBV to outsourcing decisions we will pay attention not to the resources itself but to the services these resources are deliver.

Offshoring could be successful only if it done through clever coordination of existing resources and if this coordination leads to creation of products or activities that are inimitable and unique. Despite the big potential of offshoring, sometimes the expected results are not reached, customers may not be satisfied with products or cost savings are lower than expected results. It happens from different reasons, however, in many cases it happens because of application of strategically wrong approach or bad coordination of the process (Cerutti, 2008). Hence, in the world of rapidly changing environment, we refer to the term ‘dynamic capabilities’ invented by Teece et al. (1997) and agree that coordination of resources is important but so is the environment and country that is chosen for offshoring. Managers by taking the decisions should pay attention to competitors of a certain region and how and where to deploy and redeploy assets (Doh, 2005). Hence, offshoring is not just the acquisition of new resources but the use of existing resources more effectively and efficiently. Dunning (2003) called this effective use, the leverage of resources and according to this the offshoring in MNC’s also refers to this concept, because by offshoring organization utilize existing resources in a new way to become more profitable (Daub 2009). In rapidly developing world, hire a people from outside of the company to do part or all of its information services helps a company to provide better services and maintain competitive advantages. It was also successfully tested by Espino-Rodrigues and Gil-Padilla (2005) in the hotel industry, authors came to the conclusion that for example, the outsourcing of information system activities not just reduce the costs but improve the quality of the products and thus improve competitive position. However, due to Neves et al. (2014), cost reduction is the main reason why company outsources, next reason is low skills, especially in the marketing field. Authors argues that the less transferable the activity is and easier to substitute, the less it is outsourced (Espino-Rodrigues/Gil-Padilla, 2005). Also, the more valuable the resources used for this activity are, the less it will be outsourced, since it brings quality and uniqueness to the customers.

Within the perspective of core competence approach that was developed by Prahalad & Hamel (1990), appears explanation why companies turn to outsourcing (Espino Rodrigues et al. 2006). This approach tells that to get competitive advantage company has to develop and invest in the activities that appertain to core competences and outsource all other activities. Thus, the clear understanding of core competence of the company that have ability to generate sustained competitive advantage in a long run is one of the crucial tasks for management of the company. Due to Quinn and Hilmer (1994) core competences are not those that company is doing good but those that company is doing better than competitors. By defining two or more service operations that are the core for the company and that requires some intellect knowledge and essential skills and outsource all other activities will lead to the cost reductions and creating competitive advantage. However, such factors as firm’s knowledge and capabilities should also be taken into consideration in a way that it improves quality and cost reduction if the company carry on these activities in-house. The main conclusion is, that manager of the company should determine strategic resources, and by doing this a clear understanding of firm core competencies are needed. These resources should be performed and developed in-house, all other activities potentially could be outsourced but decision must refer to both theories: TCT and RBV (Espino-Rodrigues and Gil-Padilla, 2005). However, it always difficult to set up the straightforward boundaries between core and noncore activities as it can change over time (Cerutti, 2008). McIvor (2000) argues that the main goal of the company is to differentiate between core and non-core activities, thus core activities with help from different levels in the company must be carry out internally, non-core activities should be outsourced.

Grant (1991) argues that outsourcing may be important by developing new capabilities in order to fill gaps of resources. The resource-based view sees the firm as profitable because it has either lower costs in comparison to competitors or offer high quality products, it also focuses on rents that are earned from firm-specific resources. These firm-specific resources which are difficult to imitate are the main source of competitive advantage. Each organization has its strength and weaknesses which are important to determine and distinguish from each other. And according to the resource-based theory, when the performance of existing resources does not fulfil the expectation, outsourcing could be the only one possibility to fill these gaps. RBV has been criticized for lack of arguments and clear logarithm of how to differentiate valuable and non-valuable resources. Many scholars looked into and analyzed strategic relevance of resources from different perspectives but the most relevant still is VRIO framework developed by Barney (1991). However, if we analyze strategic relevance of resources applying VRIO framework in relation to outsourcing the meaning is some different as these from Barney:

- *valuable* resources consider those that lead to cost reduction or improvement of the performance in the company. But as we already mentioned we will pay attention not to the resources itself but to the services these resources are deliver. Thus, valuable services define by the degree to which firm become more efficient or/and effective (Duab, 2009);
- *rareness* of resources defines with the level of its accessibility on external markets or in other firms;
- *inimitability* the degree of service complexity;
- *non-substitutability* the extent to which other firm can achieve the same results with similar of different services (Duab, 2009 pp.109).

In the MNC, where there are different levels in the production process and in organization as the whole. Usually, all processes are going from bottom to the top, and that leads to situation when strategic relevance depends not only on VRIO characteristic but also on the level of measurement. For example, those resources that have high strategic value for the top level, may not have it for the level below. Thus, if we consider multinational company as a hierarchy, to find out which resources are strategical for the entire company, some absolute measurement of resources is needed (Daub, 2009).

The RBV also provides a framework to analyze the rising importance of offshore outsourcing phenomena as a mechanism to gain access to resources (Rajshekhar et al., 2009 p. 159) and to export more due to increasing flexibility, cost reduction and access to new resources and market knowledge. These channels give the opportunity for MNC's to gain competitive advantage. Because of company knowledge, it is possible and easier to recognize opportunities and then due to control, firm is able to acquire or redirect the relevant resources (Duncan 1998). For example, cost reduction appears due to lower wages in developing countries, scale of economies and cheaper inputs. Flexibility, because by offshore outsourcing company is less depended to specific technology (Bertrand, 2011). And due to offshore outsourcing MNC's have the access to different kind of knowledge that otherwise would have been unreachable. However, it also could be risky and costly. By analyzing small, medium and large French multinational corporations, Bertrand (2011) made a conclusion, that offshore outsourcing helps company to gain competitive advantage, but the extent of benefits depends on the size of the company. Thus, the conclusion was made, that because of high absorptive capacity, large MNC's gain more from offshoring outsourcing then other firms (Levy, 2005). Ferreira and Ribeiro Serra (2010) analyze offshoring decisions in mature industry under TCT and RBV perspectives, and shown, that ability to sustain competitive advantages differ between industries, thus in mature industries opportunistic behavior substituted by trust and when a company is in uncertain environment, transaction costs are high and firms choose their organization models according to the specific nature of the industry, clients and products they produce. For the offshoring outsourcing to be successful from RBV perspective, the goal is to find country with best resources, train, develop and retain these resources (Tate et al., 2009 p. 520). As we mentioned, offshore sourcing refers to the use of cheaper resources, usually in developing countries and well educated and cheap labor is one of the main reasons for this.

Thus, to sum up, at the beginning of outsourcing process, organization should have clear vision of its strategic direction, advantages as well cost associated with outsourcing. The same with determination of core and noncore competencies. Next important goal is to create independence for external supplier but still remain control and security over resources and services for the buyer (Quinn et al. 1994). The outsourcing decision should be made with the long-term perspective in mind, as it has significant effect on the company and decision makers should clearly understand the final goal and objective behind this decision.

4.3.2 Manufacturing offshoring

Moving manufacturing activities to other countries has become the common phenomenon across MNC's worldwide. The companies from highly industrialized countries move their manufacturing process activities to developing countries, such as Asia or Easter Europe (Johansson & Olhager 2018). Today, China is one of the most attractive countries for manufacturing offshoring. The reasons for this are lower labor costs, access to goods and materials and location advantages. There are a lot of differences between service offshoring and manufacturing offshoring, this is the reason why we divided these concepts into two different sub-chapters. Some of these were already represented in Chapter 2 and based on this we will apply the RBV perspective to both of them.

Global competition has led companies to offshore manufacturing operations. For example, in Sweden, manufacturing played an important role for economic growth and social welfare, however being country with relatively high wages and small market, offshoring become a widespread trend that led to job losses (Johansson & Olhager 2018). Another example are car manufacture companies, that spreading production processes into different countries abroad in order to avoid high tariffs (Daub 2009).

The RBV helps to analyze manufacturing capabilities, which link together location decision with performance and competitive advantages since many organizations fails by developing strategies which helps to survive in the changing environment. The theory is also important for outsourcing decisions as it explain a superior performance in organization with internalized manufacturing activities in comparison to competitors (Mclvor 2013). When analyzing the location for manufacturing outsourcing from TCT and RBV view, organization has to search for the best suitable governance structure and competitive advantage. By applying the RBV, organization can find the answer for certain questions: how to employ outsourcing and achieve better manufacturing performance, why rivals and supplier have better performance in certain processes, how to build and manage non-imitable product and manufacturing capabilities with suppliers from different locations (Mclvor 2013). In case when company has some lack of resources it is considerable to allocate the resources through internal strategies to get better performance and develop new capabilities such as innovations or quick access to new markets. Processes that require intensive labor activities should be offshored from the countries where the wages are lower, whereas processes that require intensive capital activities should be performed internally (Kinkel & Maloca 2009). However, from TCT perspective, the location distance should be taken into consideration because of the opportunistic behavior of supplier and higher costs due to monitoring and control.

Vivek et al. (2007) in their research indicated that offshoring decisions could not be explained with just one theory (TCT or RBV), thus, they created inetrpretive structural modelling (ISM) which combines relationship between core, relationship-specific and transactional assets. In our case, core specificity assets are important for our study as they are related to RBV and these include quality, process migration & improvement and knowledge intensity of process. To test this model, authors have chosen five global manufacturing companies (Euroskies, CopyTech, Softec, Shore and Vigilent) that lead offshoring processes from India. The conclusions are, the knowledge of the process in offshoring is the key element and then the relationship-specific investments, that represent control, cooperation and strategic planning. Authors agree that TCT can explain offshoring decision in the initial stage and RBV in the mature stage. RBV focusing mainly on production skills while TCT on governance skills, TCT looks at offshoring because of cost minimization while RBV because of value creation (Mohiuddin et al. 2013, p. 1117). Vivek et al. (2007) also shown that organization while taking the decision to outsource/offshore in order to gain competitive advantage is aware with potential threats, but by combining core, relationship-specific and transactional assets, create the successful offshoring.

Mohiuddin et al. (2013) explored in their study how offshore outsourcing of the manufacturing multinationals creates competitive advantage. They proposed their results based on thirteen Canadian small multinational companies and summarized the research in outsourcing from RBV as a linear function:

Outsourcing = *f* (shortcomings in competitive capabilities + access to new markets)

Shortcomings = *f* (resource attributes, allocation, resources & capabilities + size of the local market) (Mohiuddin et al. 2013, p.1116).

By combining organizational processes with resources, organization can meet desired objectives and if the company does not possess required resources, it can get them through outsourcing and thus can cover its shortcomings. By doing manufacturing offshoring, companies combine best practices in their market with additional advantages of their partners from other countries and hence, higher level of competitive advantages is created. After all, companies were divided into three categories such as low-tech, medium-tech and high-tech firms, authors shown that the obtained results differ between them. So that, for example, for low and medium-tech firms, the main advantage of offshoring comes from cost reduction and economies of scale while for high-tech companies is the access to missing technology, cost advantages and development of new products (Mohiuddin et al., 2013). All these firms experienced success from offshoring strategy, the performance was increased, as well as competitive positions, so that companies could focus on core competencies. When cost reduction corresponds to TCT, access to new resources from firm partners corresponds to RBV perspective. Study shows that by investing in research and development and focusing on core competencies, companies can increase their dynamic capabilities and gain SCA without using their own resources. Thus, for core competences processes, company will use their own resources and outsource other processes where resources are not critical (Martinez-Mora & Merino, 2014).

Due to Kinkel & Maloca (2009), based on study of German manufacturing companies, the manufacturing offshoring is still very relevant for MNC's, but as sometimes, manufacturing offshoring could fail or leads to the huge amount of job losses, such concept as manufacturing backshoring became quite common phenomena. The situation when once offshored activities from foreign countries relocating to a home-country location (Stentoft et al. 2018). Usually it happens when knowledge about foreign country or location are small. Based on the results from Kinkel & Maloca (2009), every fourth to sixth activities that were offshored are returned to backshoring in the following 4 till 5 years. Thus, knowing the international theories and their successful application is needed for unambiguous success of manufacturing offshoring.

4.3.3 Services offshoring

Before starting our research about the offshoring of services in MNC and the application of the RBV framework to those, we have to note, that these concepts apply only to international services, when they cross the borders for being produce. Offshoring of services has begun in the early 1990s and functionate through: foreign subsidiary, complete externalization or such agreements as joint venture, licensing etc. (Pore, 2018). MNC's can keep these activities inside the organization or delegate them to a third-party (Daub, 2009). Service offshoring often functions when MNC open a couple of different centers that work on the same projects and exchanging different capabilities, sometimes happens that all of them should have certain capability, as for instance, in IT area. This process follows some chain, the situation when the work results depends on other work done before. This differ from manufacturing offshoring, where the processes are spread through different locations that are not connected with each other.

There are some differences between service offshoring and manufacturing offshoring: the reason for both of them is cost reduction, but for service offshoring, flexibility and better quality are also important while taking the decision. For offshoring of services, high skilled employees are required, but for example, investments are low as the only thing needed is working space and access to MNC's IT network. As there is low involvement into the local culture and environment, the risk is also low, because usually employees are from the same country. However, the RBV has better power than other theories by predicting company entry mode and requires high control during this process to be sure that competitive advantages are protected. Despite all other theories, RBV assumes dynamic competition, that is necessary in the world of globalization and provides better explanation of entry choice taking into account not only existing advantages but also exploitation of new ones (Pore, 2018 p.6). The dynamic capabilities perspective could answer the questions how and where companies can develop and redeploy assets across geographic location. By going to foreign markets, MNC can gain new experience and transfer new knowledge (Benyaratavej et al., 2011).

Tate et al. (2009) investigated how some international theories, namely RBV, TCT and Institutional theory can explain offshore outsourcing of services. As we mentioned above, to apply successful outsourcing decisions it is never enough to use just one theory but combining some of them together. So, authors argued, that RBV and institutional theory are helpful by combining internal and outsourced human resource based, the combination of TCT and RBV could point out to dependence risk on supplier and the combination of all three theories shows that there are always the combination of different factors, such as location and associated risks related to that as well as governance mechanisms (Figure 5). Thus, balancing them will leads to successful services offshoring.

From RBV perspective, offshoring is successful when there is a successful management of resources. In the case of successful offshoring companies gain from exploitation of new resources and access to human potential. For example, often company offshore services from India as they could find well-educated employees and high-quality processes and services for a lower labor cost. By offshoring of services, company is aware that this process is not just for cost advantages but for value adding from supplier as well, hence, firms look at supplier from strategical side as a source of capabilities (Tate et al., 2009).

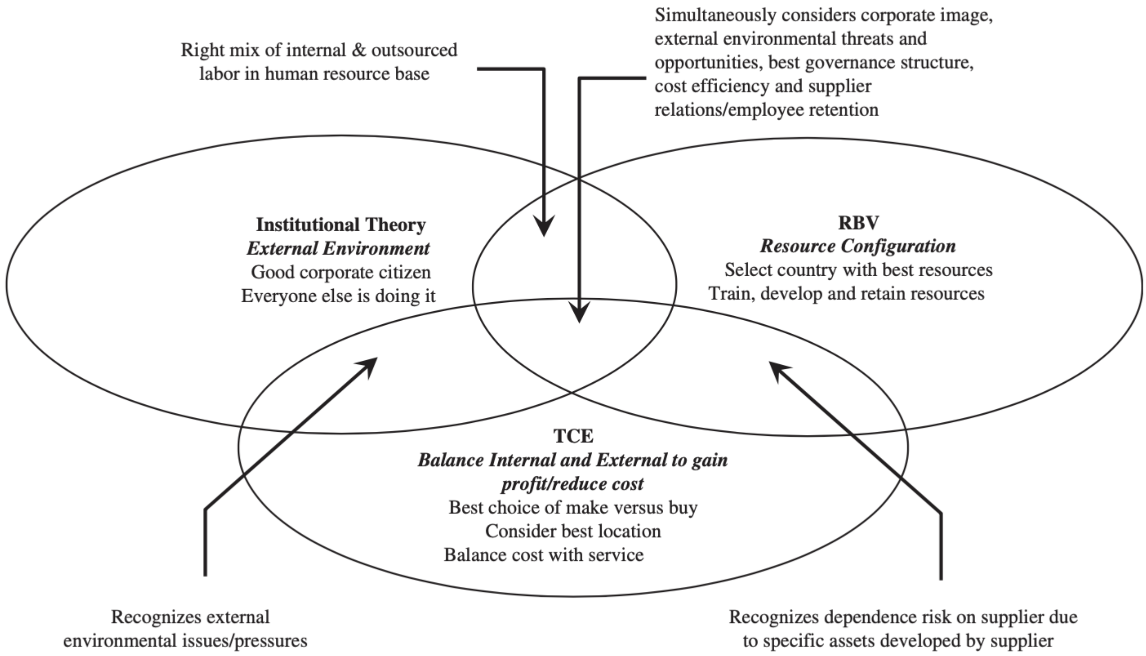

Figure 5: Application of theoretical lenses to offshore outsourcing (Tate et al. 2009, p. 520)

Weigelt (2009) by analysing outsourcing of technologies and its impact on performance, argues that outsourcing of services in general reducing firm process of learning by doing. The RBV itself could not predict mode of services offshoring but can explain the decision of entry mode used by service firms. So, for example, capabilities the company possesses, when entering foreign market, can restrict or enable the choice of offshoring mode (Pore, 2010).

Chapter conclusions

The aim of this chapter was to review the literature regarding our topic. First of all, the analysis of the main resource-based view concepts was represented. We highlighted the most important articles, that showed the development of this theory and summarized them into the table, with the main objectives and results. With the help of existing single and multiple case studies, where the RBV framework was applied to MNC's we showed whether it is appropriate and helpful to apply this theory to multinational organization and whether it helps to gain competitive positions and reach better performance results. The next step was to analyze the application of the RBV to outsourcing decisions in MNC and for better understanding we analyzed it from both perspectives: manufacturing offshoring and service offshoring as the differences between them exist.

In next chapter 5 we will summarize obtained results and give the answers to our research question set.

5. Discussion

In the previous Chapter 4 the results of the literature review were represented, thus in the subsequent chapter we will provide the answers to the research question set.

1. How relevant is the resource-based view framework for multinational corporations?

Referring to different studies and different scientists over the last three decades that had been observed, we can make the certain conclusions about the resource-based theory and its connection to MNC. Due to globalization and active competition firms are forced to move into the international area and became multinational. Because of the broad spectrum of activities MNC's are carrying, the aim was to show through analysis of the literature review, whether after more than 30 years the RBV was emerged, it is a useful theory that could be applied to MNC.

The main cornerstone of the theory are resources and capabilities that the company possess, can develop or acquire, to gain above-normal returns. Due to the RBV, not all resources are able to generate rents and create economic value, but only those resources are superior that have VRIO (valuable, rare, inimitable and non-substitutable) characteristic. Some potential examples are brand names, know-how, patents, location advantages, valuable lands, skills and many others that we described in previous chapters. Holding these does not guarantee a success, only when organization does a better use of them. It happens when made products are more attractive to the final buyers than others substitutable products or when the company make these products with lower costs in comparison to competitors. Due to RBV framework, to generate competitive advantage, firm resources should be homogeneous and imperfectly mobile. But how to remain those conditions in MNC, when it works in network environment with subsidiaries and suppliers? Evidently, by making flows of assets and resources easier between different partners and teams inside of organization, may facilitate resource heterogeneity and mobilize resources that usually believed to be immobile.

Some MNC's have resources and capabilities that are difficult to imitate, and RBV says it is due to social complexity, because of the strategies build on those resources and capabilities over long period of time (e.g. brand name, reputation). The relationship between resources, capabilities and competitive advantages is said to be casually ambiguous, because of the cooperation between different teams, managers, departments and employees inside the MNC that make these resources unique. It is obvious, that people, employees, managers and their skills are the main condition for this framework to work and to be used inside the organization. But from the other side theory tells us, that human resources are kind of these capabilities that are inimitable, valuable and less visible. It shows how to use and invest in human capital, it tells that management of the company should consistently improve employee skills and inspire them to be innovative. These highly skilled and highly motivated employees have potential to sustained competitive advantage.

The MNC when entering new markets should quickly react to environmental changes, that could be done using firm core capabilities – knowledge of how to coordinate and combine company's skills and technologies and convert them into competencies. Thus, the good knowledge of firm technologies is important. With the help of RBV, company can also analyse which strategies could transfer firm capabilities and lead to better performance. MNC's subsidiaries as the main provider of new technologies and innovations, playing an important role by carrying competitive advantage for the company. By giving them ability to control certain processes, subsidiaries can develop some new resources, that are completely different from those in the headquarter. Thus, this framework is useful by testing different entry strategies and by taking decisions whether it is efficient to develop new resources in foreign markets or to transfer existing ones. By determining the value of the resources (the greater the contribution to firm competitive advantage the greater the value), the major challenge for the company is to transfer them without destroying their value. Thus, the theoretical and empirical explanation to this can be found in the resource-based view, that also offers a significant contribution when explaining how organization could find and fulfil their resource gaps and provide achievement of superior returns and competitive advantages.

The resource-based view in a sufficiently great and important way had influenced the field of international management and all related disciplines. More importantly, it has provided a theoretical base for management of the company that seeks to gain competitive advantage as well as empirical evidence from different scientific studies. Despite the fact, that this theory was criticized by many scholars, in general, the RBV provides the framework that helps managers to understand the challenges of strategy and play better role for company in the strategic management field.

2. **What are the findings in a current-state literature review regarding the application of the resource-based view framework to outsourcing?**

The reason why in this study the big attention was paid to outsourcing form RBV perspective, is that for a long time now, it is one of the most important component of business strategy which has ability to generate competitive advantage and outsourcing decisions themselves are tightly related to firm resources and capabilities. Multinational corporations operate in international environment facing a lot of challenges regarding culture, legal policies, language. The definition of valuable resources also differs, what is rare in one country could be abundant in another. There is only one way, outsourcing could be successful, when it leads to creation of products and activities that are unique and inimitable. Usually, the decision to outsource made with the main goal of cost cutting and access to cheap labour, but it was proved that it also improves the quality of the products and as result the competitive positions are also improved. Outsourcing may be important by developing new capabilities as it helps to fill gaps of resources and through outsourcing organization can effectively use insufficient resources. It happens when external resources and activities could not be implemented inside the company or when the company possesses some resources that have no strategic value.

There are different explanations from RBV perspective why and what company should outsource. One of them is core competencies approach, it tells us that while taking the decision to outsource, company should define a couple of operations that are core and perform them in-house and outsource all other activities. To have clear understanding about core competencies, determination of strategic resources by managers are needed. This will lead to cost reduction and improving competitive positions. Thus, the main goal of the company is to determine which capabilities have high strategic importance and should be kept inside the company and which should be outsourced. The answer to these questions is represented in the RBV framework as it says that firm should focusing on capabilities with profitable resource position and outsource all other processes. Company has to evaluate resources due to heterogeneity and VRIO characteristics and then develop activities which are the most efficient to the company and at which they are better than competitors. These activities will lead to the best core competence strategies. Based on this valuation, when the strategy is selected and the company has some lack of resources and capabilities then outsourcing is needed, from the other side it becomes clear which resources and activities should be performed in house and be protected by the company. RBV tells us that non-strategic resources with low specificity and high environmental uncertainty should be outsourced, in the case when specificity is low, but resources are strategic, activities should be carried out in-house. As a conclusion, only the level of strategic value of resources are important to make a final decision. This strategic value depends on heterogeneity of the resources, whether it is valuable, specific, non-substitutable and inimitable. The RBV also points out that those resources that lead to high performance could be outsourced only in the case when organization can develop this outside and in the same time sustain superior performance. But it also says that if activity or resource are not transferable or easy to substitute, outsourcing will not take place. Some empirical studies show that positive effect of outsourcing is first of all in improving the quality of products rather than in cost reduction, because by improving the quality company is improving it competitive positions.

Hence, when we look at the outsourcing decisions from the strategic point of view concentrating mainly on resources and capabilities, a clear understanding of the core competence is needed in order to achieve future competitive advantage. Thus, the RBV helps to determine and differentiate this core competences and ensures knowledge about what exactly the company should outsource and what should be performed in house.

In our study we analysed outsourcing decisions from two different sides, outsourcing of services and outsourcing of manufacturing activities. Manufacturing activities closely linked to location and due to TCT and RBV, while taking outsourcing/offshoring decision company should take into consideration governance structure and legal policy. The bigger is location distance the bigger is the risk related to opportunistic behaviour of supplier and higher costs due to control. Processes that require labour activities should be outsourced from the countries with cheap labour, while processes that requires capital activities should be performed in-house. In service offshoring the reason to outsource is made not just because of cost reduction but also because of flexibility and better quality. Thus, high skilled employees are playing a crucial role here.

Many scholars agree that it is inappropriate to use RBV alone when taking outsourcing decisions, but always in combination with some other theories, especially with TCT. These theories focus on different concepts, that is why always important while taking the decision, take into account all possible perspectives.

6. Conclusion

"Resources don't last forever. They must either be USED, MANAGED or they will be WASTED."

― Amos Gideon Buba

Writing the conclusion to summarize the obtained results as the last thing to this study, brought me back to the time when I made an investigation about my future topic and reminded me what exactly inspired me to choose and write about the resource-based theory. Apparently, all managers and owners of the company at least once asked themselves – 'What makes my company unique?' and 'How to become more competitive'. This theory provides the answers to these and many other questions and basically refers to firm intangible resources as the main power that brings sustained competitive advantages to the company.

This study was aimed to provide answer to different questions in the field of strategic management when applying the resource-based theory to multinational corporations and outsourcing decisions in MNC and review existing literature in this field. Different studies regarding this topic have been found, studied and compered and the main findings have been represented. The main objective of this work was to summarize and represent the obtained results from previous articles in the lightest way to make it easier for future researches to find the existing gaps and the main propositions and hypotheses, as well as make it useful for managers from diverse field of the economy that seek to apply the RBV framework in their corporations and improve their competitive positions.

The following conclusion will briefly summarize obtained results from empirical studies and present limitation. First of all, current state literature review starts from the year when the theory emerged and represents the review of the development of the theory and all main assumptions. The RBV points out on the importance of firm-specific resources and their ability to achieve sustainable competitive advantage and certain performance. Firm is seen as a bundle of tangible and intangible resources, but only those which are strategic have the potential for SCA. Despite the fact that the theory got a lot of support from different scientists there has been a lot of criticism of the resource-based view, not only as a theoretical but as empirical framework. Most frequent criticism are that the SCA could be achieved only from resources with VRIN characteristic, the value of resources are too indeterminate and the theory is too tautological.

Nevertheless, there are some studies that show the usefulness of this framework for management of the company and MNC at all, when taking different decisions inside and outside the company, as for example by choosing entry strategy, transfer of resources from the parent to the host country, by determining the value of those resources and my others different fields of strategic management .

In the last ten year, the RBV has become an influential framework and was applied to different economic processes and mainly to outsourcing. That is why, at the end of the work the application of both theories RBV and TCT to outsourcing was represented and outsourcing decisions in multinational corporations were analyzed based on the RBV. Although many academic studies of outsourcing exist, there is a very little proof about the performance of those decisions when applying resource-based view framework. From the majority of studies that we reviewed when analyzing outsourcing decisions according to resources and capabilities, most of them try to explain it and built empirical results from the TCT perspective, some of them from RBV and very little combine both of them with conviction that these theories are complemented. Nonetheless, it is clear that combining different theoretical perspectives and combine them into one framework will bring more insights. It is clear, that when outsourcing different activities and processes, the main aim from the company side is cost cutting and quality improvement, both of them leads the company to gain competitive advantages. From the RBV perspective, it shows that important is to identify firm core competencies and do their development and implementation in-house and outsource all non-core activities.

The main conclusions represented above have already showed some limitations. However, others factors also exist, as for example, there is still no clear definition of strategic resources, there are very few studies in RBV field that refer to certain industry and explain unique resources and capabilities and their ability to generate rents accordingly to this industry, and there are small amount of studies that test how exactly company can use VRIO characteristic when determine which resources lead to sustainable competitive advantage. Overall, the results show that a huge progress was made in the empirical part through the last decade and scholars are still proving the relationship between different resources and performance. This study also has some limitations and constraints, the best way to show how RBV could be applied to different processes in MNC is the use of different case studies. The size of our sample is not so large, as there is little amount of case studies in the field of the RBV and MNC. When analyzing outsourcing decisions, we did not differentiate between industries, and it could give us more information and show completely different results. However, this study shows that the RBV has theoretically and empirically been founded within the field of strategic management and I hope that this study would be helpful to the future RBV and strategic management researches.

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Appendix

Abstract

The resource-based view is the main theory in the field of strategic management and the framework which can be used by organizations to achieve competitive advantage. Resources and capabilities are of special value to the firm and to determine and apply them properly is one of the main goals for the company that wants to differentiate itself from competitors and gain competitive position on the market. The main aim of this study is to review the literature in the field where resource-based view was applied to multinational corporations and outline the main findings of selected scientific works. This thesis discusses the development of this framework and its practical implication to outsourcing decisions as they are tightly related to firm resources and capabilities. The study ends with suggestions for future research.

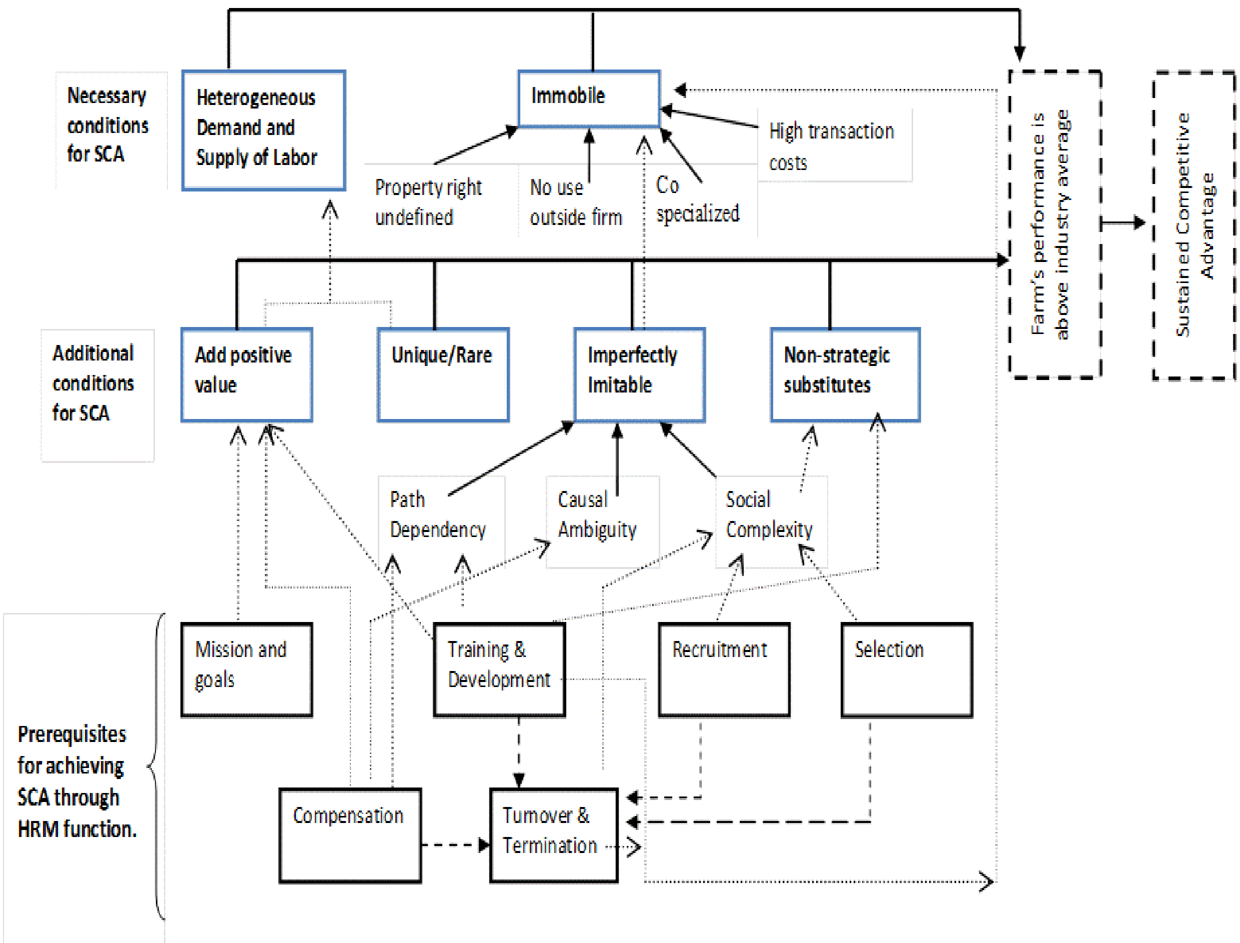
Keywords. The resource-based view, core competence, multinational corporation, outsourcing, offshoring

Deutsche Zusammenfassung

Der Ressource-based View ist eine der Haupttheorien im Bereich des strategischen Managements, der von Organisationen angewendet werden kann, um sich von Mitbewerben unterscheiden zu können und um mögliche Wettbewerbsvorteile zu erzielen. Das Hauptziel dieser Studie ist es, die Literatur in demjenigen Bereich zu überprüfen und die wichtigsten Ergebnisse von veröffentlichten wissenschaftlichen Arbeiten in denen die Theorie auf multinationale Unternehmen angewendet wurde, zusammenzufassen und zu analysieren. Diese Arbeit beschreibt die Entwicklung des ressourcenbasierten Frameworks und seine praktischen Auswirkungen auf die Outsourcing-Entscheidungen, da diese eng mit den Ressourcen und Fähigkeiten des Unternehmens verbunden sind. Abschließend enthält die Studie Vorschläge für weitere zukünftige wissenschaftliche Forschungen.

Schlüsselwörter. Ressourcentheorie, Kernkompetenz, Multinationales Unternehmen, Outsourcing, Offshoring

Appendix A: Conceptual framework for investigating the relationship between HR systems and firm performance grounded on the RBT proposed by Mugera (2012) p. 39



Appendix B: Potential Sources of Competitive Advantage in the Six Cases (addapted from Mugera & Bitsch (2005))

Valuable	Rare	Inimitable	Non Substitutable
▪ Employees achieve goals that bring revenue to the farms. ▪ Employers provide incentives and bonuses for achieving goals. ▪ Employees avoid mistakes that affect the farm's bottom line. ▪ Employers reduce operational costs by cutting down expenditure on labor. ▪ Employers recruit through their employees provide valuable information about job candidates. ▪ Employers invest in training employees to acquire specialized knowledge and skills. ▪ Current employees train new employees at no cost to the farm.	▪ Not all job seekers have requisite skills to work on dairy farm. ▪ Employers hire selectively. ▪ Some employees have specialized knowledge such as the veterinarians and nutritionists. ▪ Variance in individual performance at work. ▪ Most employers prefer hiring Hispanic to American employees. ▪ Employers retain their productive employees even then there are reasons to terminate them.	*Social Complexity* ▪ External social networks used by employees to recruit. ▪ Interpersonal relationships among coworkers based on kinship and friendship ties. E.g., peer pressure. ▪ High performance due to teamwork production. ▪ Trust based relationships between managers and employees developed over time. *Causal Ambiguity* ▪ Causes for employee satisfaction. ▪ Superior performance emanating from teamwork. *Path Dependency* ▪ Organizational culture-values, norms and beliefs. ▪ Work routines that are farm specific, e.g. milking. ▪ Resource accumulation. E.g., tacit knowledge and skills in employees that results from cumulative learning.	▪ Unique workplace relationships based on kinship and friendship ties that lead to increased performance. ▪ Organizational culture on the farms that is path dependent. ▪ Human capabilities that cannot be replaced by capital goods.