Chapter 15
Linking Intangible Resources and Competitive Advantage

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ABSTRACT

The purpose of this chapter is to analyze the linkage between intangible resources and competitive advantage. The author uses a quantitative approach based on a survey data from 247 Portuguese small and medium-sized enterprises (SMEs) from the textile industry. Findings suggest that intangible resources have a positive and significant influence on competitive advantage, either by cost leadership or differentiation. This chapter presents further evidences of the strategies that SMEs managers should pursue and policy makers should promote. This study deepens our understanding and provides novel insights into strategic management literature, since it combines multiple factors and has obtained the importance of each construct in SMEs business growth.

INTRODUCTION

Penrose (1959) mentions that the Resourced-Based View (RBV) argues that the competitive advantage of any organization is based on the set of resources and the role they play in its strategy. It can then be said that competitive advantage is based not only on the final product or service placed on the market, but mostly on a clear identification of available resources (Wernerfelt, 1984), and on how they are optimized (Penrose, 1959).

The Industrial Revolution created a market where the success and value of a firm were established by its ability to obtain, use and sell physical resources (Tsai, Lu & Yen, 2012). However, the Information Society has brought with it a new reality in which physical goods give way to intangible values, such as knowledge, culture and technology (Fakhrutdinova et al., 2014), and in which the main source of value creation market is based on immaterial pillars (Tsai et al., 2012).

According to the Economic Theory, intangible resources are based on the relation between society and property, which in itself has neither a material form nor a recognizable value, but which has the capacity to generate profit and competitive advantage (Fakhrutdinova et al., 2014).

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Exploring intangible resources among SMEs has inherent scholarly value, since these firms tend to be constrained in their tangible assets; possessing intangible resources take on particular strategic significance and can form the basis for competitive advantage (Anderson & Eshima, 2013).

Resource-based scholars argue that resources form the basis of firm strategies (Barney, 1991) and intangible resources are more likely than tangible resources to produce a competitive advantage, since they are often rare and socially complex, thereby making them difficult to imitate (Hitt, Bierman, Shimizu & Kochhar, 2001). Thus, intangible assets are considered strategic variables (Amit & Schoemaker, 1993) and can consequently create sustainable value. Firms with valuable, scarce, and nonsubstitutable resources can gain at least temporary advantages by using those resources to develop and implement product-market strategies (Hsu & Ziedonis, 2013).

So, the purpose of this paper is to broad the boundaries of and strategic management literature and test the following research question: —— *Does intangible resources positively influence small business competitive strategies, either by cost leadership or differentiation?*

THEORETICAL FRAMEWORK

Intangible Resources

Wernerfelt (1984) argues for the existence of two typologies of organizational resources: tangible - all that is touchable, and intangibles - which by contrast are immaterial goods related to the history and culture of the organization itself. Fakhrutdinova et al. (2014), generalizing, argue that intangible resources are "all intangible products with the potential to respond to needs and generate profits" (p. 83), such as brand, patents or knowledge (Dyer & Singh, 1998).

There is a consensus in the literature that the source of competitive advantage is much more associated with intangible resources, since these are scarcer and socially complex, making their imitation difficult (Barney, 1991; Hitt et al., 2001). Consequently, intangible resources are considered strategic resources (Amit & Schoemaker, 1993).

Intangibles have three interesting features that distinguish them from tangible resources (Molloy et al., 2011). First, intangibles do not deplete or deteriorate with use, conferring benefits for an undefined period of time, contrasting with tangible resources, which have expected depreciation (Cohen, 2005). Second, multiple managers can simultaneously use intangibles. For example, the brand is available for use to all managers. Finally, intangibles are immaterial, which makes them difficult to exchange and cannot be separated from their owner. Indeed, to get hold of a brand, firms must often acquire the entire organization (Marr & Roos, 2005).

Empirical research identified six types of resources that are particularly important sources of competitive advantage, especially in international ventures: reputational resources; access to financial resources; human resources; cultural resources; relational resources; and informational (knowledge) resources (Morgan, Vorhies & Schlegelmilch, 2006).

Intangible resources are based upon knowledge or information, such as organisational culture, product reputation, firm's brand, their abilities are unlimited (Pearson, Pitfield & Ryley, 2015), having a much broader range of use in international markets (Fernández-Olmos & Díez-Vial, 2015).

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