

## **Chapter IX**

# **The Resource-Based Theory of the Firm: The New Paradigm for Information Resources Management?**

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### **ABSTRACT**

*This chapter explores the theoretical foundations of the digital economy. In doing that, it first discusses micro-economics – actually the eight main theories of the 20th century firm. A reasoning, through a literary review, is presented, which shows that no other theory of firm explored provides a suitable background for the digital economy, except the resource-based view of the firm. Starting from this finding, the paper further explores the strategic formulations based on the resource-based view of the firm, as well as its implications to organizational learning and competitive advantage created by information resources management. The conclusions suggest that the resource-based view of the firm, and its implications to strategic management and information resources management, form a solid base for further studies on the foundations of the digital economy. Therefore, the paper suggests that studies of the digital economy could be more fruitful, when studied under the premises of the resource-based theory, than any other modern theory of the firm.*

## INTRODUCTION

The overall change in the world business environment is a very radical one, arising from three phenomena: networking of organizations and their information systems, increasing utilization of market mechanisms in mutual transactions, and a global emphasis on business operations. The organizational structures of enterprises have become flatter, and the barriers among them lower. Companies have started to resemble chasms of interrelated corporate functions that involve, however, deformed structures. In those structures, each new function is introduced in the form of a patch, and added to the structure – brikolage, as Ciborra (1998) calls it. Business organizations have to decide where to collaborate and where to compete, as well as which parts of their business are fundamental – or *core*.

Turning now to the organization context, businesses – particularly in competitive, more market-driven environments – need to manage their resources efficiently and effectively. This is particularly true for information resources. ‘Information Resources Management’ (IRM), i.e., the design, implementation, management and control of information resources (Reponen et al., 1995; Kangas, 1997), becomes a vital means for business transactions in companies where products and communication become “informed” (Zuboff, 1988). Operators in the international market often perform occasional, one-time transactions through electronic devices with their business partners. In today’s digital economy, extensions of the traditional intra-firm value chain (Porter, 1985) concept are emerging. These value chains could be described as customer-centered “wheels of fortune” chains that happen more by coincidence than by plan or design. This means that there is a need to build a one-time value chain for almost every transaction. This chain is ephemeral, and dissolves after the transaction has been conducted.

The traditional value chain and industry cluster analysis (Porter, 1985), as well as most other recent firm theory approaches, appears to be obsolete in the new information economy. Also, the discussion about centralization and decentralization seems to be purely academic, and has no practical value in the new economy.

At the beginning of the 1990s, the convention was to align information systems to the corporation’s overall business strategy. However, in a networked organizational structure, a streamlined alignment would seem a difficult task. Moreover, too much streamlining and standardizing tended to lead to the loss of innovation, and to predictable management concepts. Predictability is seldom a good source of competitive advantage, because predictable – even though successful – firm behavior can be imitated easily, allowing other firms to obtain the same competitive edge.

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