



Review

Shelby D. Hunt (2000) *A General Theory of Competition: Resources, Competences, Productivity, Economic Growth*, Thousand Oaks, London and New Delhi: Sage Publications, xv + pp. 303.

This book bears witness to the fact that business administration as an academic field of study has arrived. Over the past twenty years, it has outgrown its role of receiving, applying, popularizing, and in this process often simplifying and distorting, theories from economics, psychology, or sociology. The resource-based theory of the firm, which was developed primarily in management strategy, exemplifies a reversal of the traditional intellectual borrowing relationship. It is therefore particularly noteworthy if a marketing scientist, though certainly equipped with a significant background in economics, seeks to develop a general theory of competition, by obliterating the old distinction between “theoretical” economics and “applied” business disciplines. Such endeavor, on the other hand, exposes a book not only to a review of its merits for marketing but—if such distinction can still be upheld at all—also for “general” economics.

Shelby D. Hunt holds a distinguished chair in marketing at Texas Technical University and has produced numerous influential studies on competitive theory, macro-marketing, distribution channels, and particularly on the theory and methodology of marketing as a science. He is a former editor of the prestigious *Journal of Marketing*. One of his most notable contributions has been the defense of scientific realism for marketing (and, one would surmise, for economics) against the then predominant idealist (instrumentalist, operationalist, etc.) views of research. In the present work, he makes the bold attempt of developing a general theory of competition without regard to the usual disciplinary boundaries of the behavioral and social sciences. This Resource-Advantage (R-A) theory is interdisciplinary not only with regard to its pedigree—its ancestors comprising eleven different research traditions—but also with regard to its implications for an understanding of firms, industries and markets.

In his introductory chapter, the author presents R-A Theory, and in Chapters 2, 3 and 4 he describes its intellectual antecedents, of which he deals particularly with evolutionary economics as practiced by Nelson, Winter, Langlois or Robertson, and with ideas harking from Austrian economics, particularly its emphasis on market processes, competition as a knowledge discovery, and entrepreneurship. Hunt identifies further roots of R-A theory in heterodox neoclassical economics, especially in the theories of heterogeneous demand (exemplified by the later work of Chamberlin) and of differential advantage and “workable” (or “effective”) competition (Clark). An intellectual debt is acknowledged to institutionalism, transaction cost economics, and to the Parsons-Smelser paradigm in economic sociology. The arguably most important, but in any case more recent, antecedents of the new thinking about competition lie in research on business strategy, whether in approaches that emphasize industry (Porter), resources (Rumelt, Wernerfelt, Barney) or competences

(Hamel, Prahalad, Sanchez) as the pivotal criterion for the competitive nature of firms. With regard to all of these antecedents, the author identifies both shared views and divergences. Chapters 5 and 6 are the systematic core of the book wherein Hunt develops R-A theory first from a systematic and then from an evolutionary, process-oriented point of view. Overall, competition is seen “as a constant struggle among firms for comparative advantages in resources that will yield marketplace positions of competitive advantage for some market segment(s) and, thereby, superior financial performance” (p. 138). Competition is a learning process: firms learn their competitive market position through competition, as a result of feedback from relative financial performance. In Chapter 7, Hunt deals with issues of productivity, efficiency, and effectiveness, and in Chapter 9 he analyzes the factors that account for national economic growth, with a particular attention to endogenous growth models. In his concluding chapter, the author describes the relationship between R-A theory and “standard” neo-classical theory of competition and claims to show the superiority of his approach for dealing with public policy issues, particularly antitrust legislation.

Formulated against those of “perfect competition theory,” the “foundational premises” of R-A theory are the following (p. 106):

- P1. Demand is heterogeneous across industries, heterogeneous within industries, and dynamic.
- P2. Consumer information is imperfect and costly.
- P3. Human motivation is constrained self-interest seeking.
- P4. The firm’s objective is superior financial performance.
- P5. The firm’s information is imperfect and costly.
- P6. The firm’s resources are financial, physical, legal, human, organizational, informational, and relational.
- P7. Resource characteristics are heterogeneous and imperfectly mobile.
- P8. The role of management is to recognize, understand, create, select, implement, and modify strategies.
- P9. Competitive dynamics are disequilibrium-provoking, with innovation endogenous.

These premises are dense in presuppositions and claims, and any review of the book must therefore be selective. Hunt’s book has already been amply reviewed, albeit more in academic management journals than in the economics literature. And the author has defended himself against critiques that his R-A theory is too eclectic and methodologically “impure”, too incremental, or too “neoclassical” (Hunt 2000). Overall, the beauty of the book lies in the broad picture it paints—one many economists and management academics would want to agree with. The drawbacks lie in the details. Only five broad issues shall be addressed here, without reduplicating the arguments of earlier reviews.

Scope

The main shortcoming of the book lies in its attempt of doing too much (Hodgson 2000). Hunt not only wants to sketch a new paradigm for analyzing and understanding

competition—the novelty of which remains quite doubtful in the light of the many roots from which it draws inspirations—but explicitly stretches out into a motley of much wider issues of economics, public policy, and philosophy. Thus he discusses the capital-labor ratio in technological progress, the role of trust in economic development, cultural and ethical relativism, factor productivity in the Soviet Union, antitrust legislation, Barro's models of the determinants of economic growth, the socialist calculation debate, and endogenous growth theory—and this list is quite incomplete (see a compilation of the claims of R-A Theory in Hunt 2000:80). Indeed, Hunt wants to develop a theory of ethics that, through a model of human motivation, is connected to R-A Theory (pp. 118ff.). Unfortunately, his discussion of some of these topics is superficial at best and faulty at worst.

Hunt's intention is more than a mere exposition of a theory in all its refinements. He wants to present a worldview: "Resource-advantage theory is also claimed to have normative implications for business strategy" (p. 15). Free-market economists will be happy that Hunt pleads their cause. But his arguments are somewhat of a *fiat* character and do not convincingly follow from R-A Theory. Thus he claims that his theory, as one in a long list of achievements (p. 258f), "contributes to explaining the growth pattern of the (former) Soviet Union" by showing why capital deepening caused the country to stagnate. His answer is simple—and arguably correct: only innovations prevent stagnation as a result of a higher K/L ratio. However, is the author at all cognizant of the vast literature that expands Solow's growth model so as to comprise a theory of innovation? Does he know of the stream of studies since at least the 1970s that have, from different methodological (and even ideological) positions, revealed the inefficiencies in the Soviet system, particularly its inefficient resource use, lack of innovative capacity, and inability to transform capital accumulation into competitive advantage on markets?

Focus would have been better than breadth, though for any possessor of a "grand theory" it is understandably difficult to withstand the urge to spell out its applicability to a cornucopia of problems and to claim its superiority to all existing explanations. Nonetheless the scope of the book is a bit of a stretch.

Enemy

In several passages, Hunt presents an oversimplified picture of "mainstream" neoclassical economics, and in doing so he is sometimes less than fair to its representatives. It was no other than Alfred Marshall, fountainhead of neoclassical economics, who has formulated many of the ideas on which modern marketing came to rely: prices as differentiated by the costs of marketing; the importance of human capital for competitive advantage; heterogeneous markets driven by the demands of individuals with widely different wants and needs; the primary role of managers as that of innovators; the function of marketing as the capture of consumer surplus; the relative advantages and disadvantages of firm size for production costs, product differentiation, and marketing. In fact, it may be argued that Marshall was the first to recognize a distinctive role for marketing and, by treating of topics like industrial training, business organization, and corporate control, of management in general (Dixon 1999).

It is quite dubious whether "the neoclassical tradition's epistemology favors formal proofs and statistical tests on primary data from surveys" over "data from researcher

questionnaires” (p. 2). And in criticizing “perfect competition theory” (p. 106 *et passim*), isn’t the author flogging a dead horse? It is easy first to create a straw man and then to show that his positions are inadequate for a purpose for which they may never have been intended. Most importantly, such an approach underplays the real merits of R-A Theory as an alternative to more than merely the barest textbook versions of neoclassical economics.

In his attempts to use R-A theory as a solution to puzzles “neoclassical economics” cannot solve, Hunt is barking up the wrong tree or, at best, flogging a dead horse. His antagonist is more sophisticated than he seems to realize and has mutated, thus producing numerous incubi who are largely immune at least to the criticisms Hunt levels against their grandparent. Not only has “mainstream” economics long realized that the homogeneity of goods, costless information, and other claims of perfect competition were overly restrictive assumptions. The question may well be raised whether, in the light of the heterodoxy of theories emanating from neo-classical economics, a clearly identifiable “mainstream” still exists. Most of mainstream economics has long gone beyond assumptions such as perfectly mobile resources, homogeneous demand, or costless information, against which Hunt pitches R-A theory. Numerous relaxations, adaptations, and extensions have been introduced into mainstream economics and have transformed some of its models into *general* theories of competition of which perfect competition is but a special—and admittedly—unrealistic instance. Thus, in distinguishing R-A theory from “neoclassical economics”, Hunt tends to use straw man arguments. He admits this explicitly (p. 106) but claims the necessity of this approach for reasons of demarcating the foundational premises of R-A theory.

Even if “mainstream economics” did exist—the most fruitful approaches in management theory have hardly ever drawn on the simplistic assumptions against which Hunt builds R-A theory. Most of organization theory, business strategy, and marketing have long been too concerned with individual and real cases of decision-making to fall prey to the simplifications and abstractions of economics textbooks. Even though the structure-conduct-performance paradigm of industrial organization may long have dominated business strategy and even though textbooks on productions and operations management will apply standard cost theory, what is learned in business schools today has its roots largely elsewhere—though not always in more fertile soil. In strategic management textbooks, internal sources of competitive advantage and organizational capabilities have become common currency just as much as assumptions of asymmetric information or heterogeneous resources (Doyle 2000). In marketing, the received view regards transaction costs and opportunity costs as counting towards the full economic costs of decisions, products differentiated by time and space in consumer valuation, and distribution costs and information as anything but costless. Again, Hunt fights against paper tigers, for many of the ideas he advocates have already entered textbooks of economics but certainly those of business strategy and marketing.

Superiority

Moreover, the attempt to claim for R-A theory a “superior explanatory and predictive power” (p. 105) is not quite convincing, particularly if this theory is understood as a superior framework for marketing science. The question that arises here is: superior in what respect?

Does the “explanation” R-A Theory gives for the economic inefficiency of socialism really go beyond the arguments presented in the socialist calculation debate (which the author discusses at length)? Where, in fact, does it provide an explanation for the greater productivity of capitalism that goes beyond pointing to its better resource use? The “efficiency-enhancing and effectiveness-enhancing innovation” motivated by competition, the necessity of private property for an efficient allocation of scarce resources, inferential reasoning from actual financial performance to the “marketplace positions” of firms, and lastly the facilitation of productivity-enhancing, “higher-order” resources (p. 175f)—are these not all advantages of capitalist production we are familiar with from the writings of Austrian economists and evolutionary economists? Hunt has performed a repackaging job here, though admittedly a very good one.

Moreover, is the justification of superiority on the grounds of predictive power not a hallmark of that very instrumentalist or operationalist view in the philosophy of science the author so vehemently opposes? Shouldn’t a defense of a theory on the basis of scientific realism have to prove the ontological foundation of its constructs and its naturalness? In particular, it becomes little evident how R-A Theory goes significantly beyond the resource-based theory of competition. How, in actual fact, is it superior?

In the management literature, new theories must ultimately stand empirical tests. Hunt alleges the superiority of R-A Theory—but where is the evidence, lest anecdotal evidence be admitted?

Resource Advantage and Competition

The central concept in R-A Theory is that of “resources”, which again determine the competitive advantage of firms. Competitive advantage is the result of a firm’s planned strategy. The strategic direction is realized through the ability of producing greater profits than the competitors. Many factors are equally important in producing a position of success. Some of these are industrial factors, others are resources and competencies of the single firm. The sum of all these forces results in creating and sustaining a successful position, in other words, a competitive advantage. The reaction to this reasoning may be: “I hear the message well but lack faith’s constant trust” (Goethe, *Faust* I). For at its worst, it is nothing more than a tautology: successful firms are successful because they have a resource advantage, which in turn cannot be defined in any other way than as a quality that brings about success. Defining the possession in terms of the outcome it produces presents ontological difficulties: both in cases when resource advantages are posited *ex ante* and in situations where the chain of causality is contestable.

The crux of R-A Theory, as in much of the strategy literature, seems to lie in an equivocation of strategy and competition. Though Hunt is skeptical of formal planning models such as the portfolio matrices of the Boston Consulting Group or of General Electric, he asserts the importance of corporate strategy for profitability. In fact, R-A Theory shares a number of assumptions with (traditional IO-type) industry-based theories (p. 84f). Unfortunately, it also shares some of their shortcomings.

The literature on competitive advantage is generally unclear on whether the search for a strategy that will deliver competitive advantage is a process of discovery or of invention

(Johnson and Scholes 1999). Hunt, too, is less than clear on this point. Moreover, the idea that strategy is the pursuit of competitive (or resource) advantage presupposes the existence of a process of competition that is distinct from the process of strategy making. But is strategy now endogenous or exogenous to the process of competition?

Such a distinction is not necessarily sustainable; there has recently been interest in theories of strategy in which advantage accrues solely from transient “chaotic” phenomena and generation of rents is not due to any deliberate strategizing (Brown and Eisenhardt 1998). High-velocity markets (such as e-commerce or certain financial markets) are emergent (with blurred boundaries, intensive competition, and often a lack of viable business models), transforming (with major shifts in technology, government regulation, etc.), or hyper-competitive. Not only is timing of the essence on such markets. Organization also drives strategy—too much is happening too fast for a “strategy first” approach. Organizations on the “edge of chaos” create complicated, unpredictable and adaptive behavior where small changes can have a big impact.

Austrian economists should have no difficulty with such a scenario. In the subjectivist view of Kirzner and others, entrepreneurs need not make any neat distinction between competition and strategy. But does this scenario fit into R-A Theory, if competition is so intertwined with strategy that resource-based advantage has little independent meaning (Lengnick-Hall and Wolff 1999)?

Hunt convincingly demonstrates that competition is not about dividing up limited resources but about creating more resources, and that competition is therefore “pro-society.” But is it really true that neo-classically inspired management thought confines itself to determining quantity and implementing a production function (p. 130) and therefore cannot accommodate business strategies? What about game theory, for long a pillar of mainstream microeconomics? Game theory is not even mentioned in Hunt’s book.

Like much of the resource-based literature, R-A Theory suffers from a methodological problem: the core hypothesis—that resource advantage produces sustained financial performance—finds little support in formal deductive or inductive inference. It may even incorporate refutation barriers that preclude meaningful empirical tests (which would permit Hunt to claim it as true on *a priori* grounds). The existence of competitive advantages is inferred from *ex post* performance observations (p. 175 *et passim*), in order to draw the converse conclusion—that creating competitive advantages *ex ante* produces sustained superior performance (Powell 2001). Is R-A Theory, then, an analytic rather than a synthetic proposition, no matter what its microeconomic foundation and no matter whether it is disguised in empirical language?

The Austrian Cachet

Though R-A theory is said only to “draw heavily” on Austrian economics (p. 137), a definite “affinity” is also alleged (p. 17). The analogy has its definite limits.

First, Hunt makes very selective use of the literature in what may be described, in a broad sense, as the Austrian research tradition. An Austrian economist may find it noteworthy that such Austrians as Schumpeter who are usually considered to have pioneered ideas on dynamic competition and entrepreneurship are given a short shrift while Mises, who can

hardly be credited with a highly innovative theory of the firm, is drawn upon much more extensively. More importantly, Hunt completely neglects those members of the first and second Austrian school whose ideas could be mostly fruitfully applied to marketing and business strategy. Among these are: Menger's distinction between wants and needs, and his theory of complementarity; Menger's attention to inventory costs, promotion, and other factors of the "marketability" of commodities; Böhm-Bawerk's conception of higher-order goods, and his treatment of intangibles as assets (or, in modern parlance, as resources); Böhm-Bawerk's insistence that consumers can order utility only on an ordinal but not a cardinal scale; Wieser's explanation of the emergence of marketing systems as a result of entrepreneurship; and Hayek's theory of spontaneous order, among which we may count institutions of business such as types of corporations, retail structures, and communication media.

Most of these ideas have not found entry, at least not explicitly, into Hunt's *General Theory*. More importantly, however, Hunt is at odds with Austrian economics in his lambasting of social science for its alleged relativism, be it in an ethical, cultural, or epistemological sense (p. 229ff). Austrians have never been relativists in the sense of claiming that there are no best paradigms for ordering human affairs. But much of what is being flogged as "relativist" is embraced under the Austrian commitment to a subjectivist value theory. Much as in modern marketing, which focuses on the ability of marketing management to make consumers accept certain goods *as* certain products regardless of their objective properties, Austrian economists from Menger to Lachmann have always denied the objective existence of goods *qua* economic goods (though not *qua* physical objects or relations between these). For Menger, value was but a consumer's "judgment". And Hayek wrote: "So far as human actions are concerned, the things *are* what the acting people think they are" (Hayek 1979:44).

Hunt does not share this understanding of subjectivism, the cornerstone of Austrian economics (pp. 230ff). And it is obvious that he does not accept the Austrian understanding of economics as a value-free science. He wants to find scientific reasons why Great Britain may have been "morally *right*" to lead the drive for the abolition of slavery in the 19th Century (though, as a matter of historical fact, Great Britain was last among world powers in actually doing so but for the United States). Austrians would respond, quite univocally, that we may have our own moral judgments on this but that we must not commit what Hume called the "naturalistic fallacy" by deriving an *ought* from an *is*. Social science may investigate the conditions under which slavery is an efficient or less efficient institution. But in the Austrian view it can never judge it from an "objective" ethical standpoint. As to the quite different question of whether the holocaust actually occurred or is not simply a "constructed reality" (p. 230), Austrians will certainly agree with Hunt though maybe for different reasons. Clearly, there can be no doubt about the actual occurrence though we may well differ as to its historical roots, its ideological background, and its "meaning". Austrians are not ontological relativists but epistemological and semantic subjectivists. Hunt seems not to be even that, and here the ways clearly part. In his theory of knowledge, Hunt is more a Popperian realist—though Popper is not quoted even once in the book—than a realist of any other kind.

Though the theory of the firm was long nearly neglected by Austrian economists, a great deal of attention was devoted to it in recent years. Much of this work is innovative in that

it goes beyond an exposition of what is found in the writings of the first through third generation (see, for example, Klein 1998, Dulbecco and Garrouste 1999, Garrouste 1999, Ioannides 1999, Lewin and Phelan 2000). Most Austrian theories focus on the knowledge problem, on time, fundamental uncertainty, heterogeneity of capital, and entrepreneurship. Hunt discusses knowledge and capital, but gives short shrift to entrepreneurship and ignores the crucial role of time in knowledge discovery and in any Austrian theory of the firm. Austrians have typically seen time and knowledge as inextricably interwoven. Production occurs over time, and the passage of time always implies some form of learning (Dulbecco and Garrouste 1999, Lewin and Phelan 2000).

One of Hunt's greatest lapses, from an Austrian viewpoint, is arguably the absence of a theory of rents accruing to the dynamic capability to renew advantages over time. In a market strategy perspective, business strategy is meant to produce strategic rents, whether these derive from new products, new processes, or more intensive market communication or distribution. An equally important Schumpeterian insight is that the respective capital structure of firms gives rise to particular organizational forms of arranging production and of corporate governance (Klein 1998). The regrouping of capital combinations that typically occurs in strategic decision-making carries with it implications for the organizational structure of firms, and particular for the question of its boundary. On this point, too, Hunt's book is silent.

A General Theory of Competition has been called "a tapestry of diverse insights" (Foss 2000: 67) rather than a general explanatory theory. And yet it is worth reading, particularly for management strategists, if mainly for its intentions and manifold valuable pieces of wisdom. Hunt's book is a welcome addition to the literature though it may not fully live up to the claims it makes for itself.

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