The Resource — Performance Link
Why Your Competitor’s Resources Should Matter to You

Many studies have established the connection between business resources and success; it’s basically a matter of “the bigger the better”. So why are so many firms with huge resources not out-performing their competitors? Tomasz Obloj was intrigued by this question, and he found out that just having a lot of a resource is not enough! You have to be able to boast that you have more than your competitors! But this advantage will not hold indefinitely.

BIOGRAPHY
Tomasz Obloj joined the HEC department of strategy and business policy in 2011. He holds a PhD in strategy and an M.S. in management from INSEAD, and an M.S. in economics from Warsaw School of Economics, where he taught from 2004 to 2006. He has written many articles and taken part in many academic conferences. Current research focuses on the role that organizational incentives play in the division of value within firms.

When it comes to business performance, studies have led us to assume that the companies with the most tangible and/or intangible resources — human, innovation, material, etc. — are likely to be market leaders. But Tomasz Obloj noticed that this was not the case, and he and co-researcher Laurence Capron suspected that the importance of resource “stock” or abundance was being misinterpreted. Focusing on the intangible resource of seller reputation, they crafted a study of online auctions of a mobile phone to test the their hypothesis that what really matters about resources is not how much you possess, but how much more than others.

RESOURCES VS. RESOURCE GAPS
Obloj explains that prior to this study, the correlation between a seller’s reputation and people’s willingness to pay had been established, but no one had ever raised the issue of the difference or gap between various sellers’ reputations. Could a seller benefit from having not merely a good reputation, but a reputation that was visibly better than its competitor? Studying the different sales prices of a same mobile phone showed that competitors’ reputations do indeed make a difference. The larger the gap between a seller’s and its competitor’s reputations, the greater the seller’s ability to command a higher price premium — so the higher the seller’s relative business performance. This means that resources need to be looked at in a different way,” Obloj comments. ”The absolute size of resource stock is not the only thing that matters. Firms have to take an interest in their competitor’s stock of a same resource, assess the difference, and decide what to do about it.” In this study, relative reputation stops mattering at about 200%, or when a seller’s reputation is three times as good as its main competitor’s, but Obloj says this figure is probably context specific. In commodities markets, for example, reputation is unlikely to be a valuable resource, whereas it is doubtlessly even more valuable in luxury or collectables markets, where reputation is extremely important to customers.

BRIDGING RESOURCE GAPS
Obloj was actually quite surprised by the magnitude of the gap effect. Indeed, taking into account reputation gap allowed explaining 40% of the difference in price premia across sellers. In contrast, absolute resources (in this case, reputation) traditionally accounted for just 12% of performance differences between parties. So should you do whatever it takes to bridge a resource gap? When it comes to reputation, Obloj and Capron found that there are limits to the impact of a gap. “Customers definitely care that you are better than your competitor, and they will pay for it. But they do not care if you are hugely better,”
Obloj explains. “Take the example of car safety. If your car gets 4 stars on a crash test and your competitor’s has just 3 stars, this will truly matter to customers. But let’s say that your competitor has achieved 3 stars and you have 6. Customers will care a little, and they may be willing to pay a bit more, but not 2 times more.” In short, if you have a considerable resource advantage, building it up further is unlikely to have a significant impact on business performance. On the other hand, “if all of your competitors have massive resources in an area, the gap may simply be too costly to bridge. You may be better off investing in a less generally abundant resource.” A sort of “blue ocean” view of resource development.

**METHODOLOGY**

Obloj and Capron gathered data from 2000 online auctions of three new mobile phones on Allegro, Poland’s largest internet auction site (English-style, ascending-bid auctions) over a 4-month period. They then established 72 matched pairs of transactions featuring an identical product and identical auction conditions (i.e., auction timing and description, product presentation and location, etc.). This isolated reputation as the main differentiating factor. They measured reputation as the difference between the number of positive and negative ratings for each selling party. The study shows that a seller’s ability to command price premia increases with the size of the reputation gap with its competitors, and that this ability becomes increasingly smaller for each additional unit of seller reputation gap.

**A CALL FOR NEW BUSINESS PERSPECTIVES**

As far as Obloj is concerned, the extremely high cost of resource development and the significant length of time it takes to develop decisive resources like reputation, innovation, or human capital should cause business people to question an all-too-common assumption. “People usually think it’s best to have the most resources possible. We show that you have to take the competitive landscape into account. Where do you stand in comparison to your rivals? How long would it take, and how much would it cost to close certain gaps? And most importantly, how likely is the investment to pay off?”

One of the most important contributions of this study is to be that it qualifies the idea that “more is better” and pushes a change in perspective. Competitors’ resources matter and must be included in the resource-performance equation. It is not a matter of absolutes.


**APPLICATIONS IN THE WORKPLACE**

This study supports a fundamental expansion of perspective to consider competitors’ resource what addressing resource/performance issues. Managers should take the following notions into account:

- When it comes to business performance, absolute “stock” of resources — whatever they may be — matters far less than having more (or less) of a resource than your competitors. So find out about competitors’ resources and compare them to yours.
- Do not build up your resources indefinitely. Customers care about your being better or having more than your competitors, but not to any extreme.
- When competitors have a huge amount of a resource, it may not be worth the time or cost to attempt to bridge the gap. You are more likely to boost performance by investing in a less abundant resource.