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BOOK REVIEW

CREATING VALUE THROUGH SKILL-BASED STRATEGY AND ENTREPRENEURIAL LEADERSHIP

By William C. Schulz III and Charles W. Hofer
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Schulz and Hofer's book, *Creating Value Through Skill-Based Strategy and Entrepreneurial Leadership* (1999), is an ambitious effort to develop a process-oriented, resource-based theory of the firm. The authors suggest that their objective is to provide an improved understanding of skill-based strategy and entrepreneurial leadership through a detailed review of the literature on resources and strategy and in-depth field research of four firms that used skill-based strategies to improve their performance and create sustainable competitive advantages. From this improved understanding, the authors present a quite detailed theory and process model of the resource-based determinants of competitive advantage.

The core of the authors' contributions rest on three research findings that appear to explain the success of the firms studied (p. 219): "(1) Meeting the customers' needs is a function of knowing what the customers want and need. (2) Resources in and of themselves are not as important as what management does in assembling them and developing integrative systems that can allow the company to produce quality products and be flexible, fast and cost efficient. (3) The challenge for general managers is to keep the company 'in the hunt' by knowing both what the customers want and what the company is capable of doing with its resources and skills."

At first glance one might be tempted to ask "so what?" since these three findings really just represent the strategy problem of matching opportunity and resources as defined by authors such as Hofer and Schendel (1978) over 20 years ago. However, if anyone were to assume that this reiteration of the fundamental premises of strategic management offers no new value, they would be wrong. For one thing, in this reviewer's mind the field of strategic management, to its detriment, has lost sight of these fundamentals, in favor of a search for measurement rigor and methodological elegance. Therefore, Schulz and Hofer's return to the basics is welcome. More importantly, this important book gives new meaning to the match of opportunity and resources.

Schulz and Hofer make it clear that the entrepreneurial process of identifying opportunity is one of the three most important competencies of an organization and its management. This competence, which depends on a firm's absorptive capacity, interpretive systems, and leadership, might not normally be associated with a resource-based view of the firm but it is important nonetheless. For example, the entrepreneurial search process can be the basis for first mover advantage.

The authors also effectively argue that an organization's "institutional competence", the building of a distinctive organizational character that makes it peculiarly suited to perform certain types of work, is equally important. Schulz and Hofer borrow and adapt this concept from Selznick (1957) concepts of institutionalization, character, and distinctive competence. While I agree with the end result of their efforts, I disagreed with the inference of the authors in Chapter 3 (pp. 53-55) that the concepts of organizational character and distinctive competence are essentially synonymous. Although interrelated, I have always viewed distinctive competence as that more measurable aspect of character, i.e., the particular task-related orientations of the organization, rather than its ephemeral features such as culture or "personality". Regardless of this small disagreement, the point is that organizations, successful ones at least, *do* appear to take on a special character and *do* seem to become adept at performing certain types of work. Furthermore, as the authors suggest, it may prove to be more effective in the long run to measure such competencies in a more holistic way, *across* functions, than *by* functional areas such as marketing, production, and so on (Snow & Hrebiniak, 1980).

Finally, Schulz and Hofer introduce the competence of "dynamic capability". This important determinant of competitive advantage is a measure of an organization's ability to develop and maintain systems and structures to support learning, and flexibly utilize its systemic resources to meet changing strategic requirements. In other words, dynamic capability allows the organization to exploit its entrepreneurial and institutional competences more effectively.

When all is said and done, what the authors propose are three competencies, developed by entrepreneurial leadership and given meaning through the formulation of a skill-based strategy, that define the long run productive opportunity of a firm and determine its potential to create sustainable competitive advantage. Because these competencies depend upon a mixture and configuration of a variety of individual skills and basic resources, they will be rare, difficult to imitate, and have no substitutes, per Barney's seminal expositions (1991, 1997). However, because the competencies are important to the organization in its identification and provision of value to customers, rather than of direct value to customers in and of themselves, Schulz and Hofer's theoretical model avoids the tautological problems that have tended to plague the development of the resource-based view of the firm (Priem & Butler, 2001a; Priem & Butler, 2001b). Finally, although somewhat cumbersome in its style, the detailed development of the literature, the longitudinal nature of the data collected, the turnaround situations of the firms studied, and painstaking presentation of the theory, provide something that is often missing in theoretical works: evidence of a cause-effect relationship between skill-based strategy and entrepreneurial leadership on the one hand and sustainable competitive advantage on the other. Simply put, what the authors have accomplished may be the most important advancement of strategic management theory since Porter's (1980) seminal work on competitive strategy.

As noted at the outset of this review, Schulz and Hofer have undertaken an ambitious project. As suggested throughout this review their book is one of ideas, and they are important ideas. However, despite its many strengths, the book has some limitations that should be discussed. While it may sound trite, a major limitation for me was the writing style. I admit to a great difficulty in preparing a review that I hope does justice to this book. Part of the difficulty is undoubtedly due to my own limitations as a scholar; nevertheless, I did not find the book particularly reader-friendly despite the authors' obvious attempts to make it so. There were so many ideas, so many new terms. The relationships among them were not always clear. There was also a distracting tendency of the authors to repeat themselves, sometimes using the repetition as part of their explanations.

There also was somewhat of a disconnection between the sections prior to and following the presentation of the four case studies from which the authors' skill-based strategy and entrepreneurial leadership theory was derived. For example, in Chapter 3 (pp. 35-56) the authors present a very interesting and compelling "typology" of resource levels: (1) basic, (2) systemic, (3) organizational services, and (4) stock assets. Unfortunately, this potential contribution to the literature is then more or less abandoned in the remainder of the book. No attempt is made to explain what the four levels of resources are for the companies studied, nor do the four levels appear in a distinct, consistent fashion later in the development of the theory.

Given the authors' propensity to develop definitions for their terms, I was surprised that they did not provide more attention to the definitions of two very key terms: entrepreneurship and competitive advantage. Certainly there were allusions from which one could make inferences. However, I would have wished for more concrete definitions. For example, Schulz and Hofer's research and theory is clearly about corporate entrepreneurship, not new venture creation. Indeed, one of the compelling features of their book is the presentation of a theory that explains why entrepreneurial leadership and managerial direction are integral and intertwined parts of the formulation and implementation of skill-based strategies. Unfortunately, all the authors' offer is vague suggestions that entrepreneurship has something to do with opportunity recognition and creative destruction (Schumpeter, 1934), the latter allusion provided in a context (see p. 237) that made the definition of entrepreneurship difficult to distinguish from the definition of strategy (Hofer & Schendel, 1978). Some further attention and discussion of entrepreneurship vis-à-vis mainstream definitions (e.g., Gartner, 1988; Schumpeter, 1934) would have been useful. The need for greater definitional precision is also true for the concept of sustainable competitive advantage.

As noted above the book is primarily process, not content oriented. Still I wish the authors would have come to grips with some of the fundamental content issues that must be resolved if the resource-based view of the firm is to flourish rather than fade. The recent interchanges of Priem and Butler (2001a, 2001b) and Barney (2001) highlight some of these concerns. The first is whether sustainable competitive advantage should be, because the question is in what way the field should develop its language and theories to better frame business problems, a *function* of valuable, rare, inimitable, unsubstitutable resources or whether sustainable competitive advantage should be *defined* by such resources? Likewise, should firm performance (e.g., profitability) be considered a *function* of the presence or extent of sustainable competitive advantage, *and* other factors, or should sustainable competitive advantage be assumed to *equal* (lead automatically to) above normal firm performance? As noted earlier, I believe that Schulz and Hofer have effectively avoided tautology in their theoretical model; however, they have also avoided tackling those two fundamental issues.

Finally, Schulz and Hofer have neglected one other factor: the way the academic market places value on ideas. Whether one likes it or not, measurement is of primary value in the academic marketplace. I fear that the ideas presented in this book will prove extremely difficult to measure. Consequently, the problem of measurement must be tackled at some point if the full potential of the theory presented in this book is to be realized.

In conclusion, this important book is neither an easy read nor a cookbook for a host of quantitative studies. Nevertheless, it is rich in valuable ideas that must be carefully digested. As possibly one of the most important books on strategy from a resource-based perspective ever written, it deserves to be read and re-read by all serious scholars in the fields of entrepreneurship and strategic management.

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