



## Journal of Historical Research in Marketing

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Shelby D. Hunt

#### Article information:

To cite this document: Shelby D. Hunt, (2012), "The evolution of resource-advantage theory: Six events, six realizations, six contributions", Journal of Historical Research in Marketing, Vol. 4 Iss: 1 pp. 7 - 29

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# The evolution of resource-advantage theory

Resource-  
advantage  
theory

## Six events, six realizations, six contributions

Shelby D. Hunt

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*Department of Marketing, Jerry S. Rawls College of Business Administration,  
Texas Tech University, Lubbock, Texas, USA*

### Abstract

**Purpose** – The purpose of this paper is to provide a personal retrospective on six of the key events/experiences that influenced the development of the structure, foundational premises, and models of the resource-advantage theory of competition.

**Design/methodology/approach** – The paper uses a personal retrospective approach.

**Findings** – The paper finds that six key events influenced the development of resource-advantage theory: B.J. “Bud” LaLonde emphasizes the works of Alderson; Rob Morgan suggests an article on the resource-based theory of the firm; Roy Howell suggests a presentation on R-A theory; Randy Sparks shows a “socialist calculation” article; Kim Boal suggests the *Journal of Management Inquiry* as a publication outlet; and Bob Phillips discusses his work on “firm effects vs industry effects”. The paper then relates each of the six events to the paths, routes, or procedures that are often proposed as (or reported to be) likely to lead to the development of theories.

**Originality/value** – By providing the evolutionary history of resource-advantage theory, the paper provides implications for developing marketing theories.

**Keywords** Resource-advantage theory, History of marketing thought, Theory development, Context of discovery, Marketing theory, Marketing philosophy

**Paper type** Research paper

### Introduction

All historical research attempts to understand some entity or entities through time. Marketing historians distinguish between historical research that focuses on marketing practice (e.g. histories of advertising, retailing, and specific firms) and the history of marketing thought (e.g. histories of concepts, theories, institutions, associations, marketing theorists, and schools of thought) (Jones, 2010). Although all forms of historical research are retrospective in the sense that the researcher is “looking back,” some forms of historical research are personal retrospectives. That is, one of the developers/creators of a concept or theory recounts the personal factors or events that led to the development/creation of a particular concept or theory. This article is a personal retrospective on the theory that has come to be called “resource-advantage” (R-A) theory.

Resource-advantage (R-A) theory is a theory of competition that was proposed by Robert M. Morgan and me in our article, “The comparative advantage theory of competition” (Hunt and Morgan, 1995), which was followed by Hunt and Morgan (1996, 1997). Since those original articles, there has been a book (Hunt, 2000b) and numerous other articles devoted to developing, evaluating, and testing R-A theory. One reason for a retrospective on the theory is that it scores well on the customary metrics of theory success. For example, the original article developing the theory, Hunt and



Morgan (1995), won the 1995 Harold H. Maynard Award, as well as the 2004 Sheth Foundation/*Journal of Marketing* Award (for its “long term contributions to the field of marketing and marketing theory”). Furthermore, of the three seminal articles developing the theory (i.e. Hunt and Morgan, 1995, 1996, 1997), the original article has received Google Scholar citations well in excess of 1,000, and the two follow-up articles have been cited several hundred times. Also, if one inserts “resource-advantage theory” into standard search engines, one gets several tens of thousands of “hits”[1]. Factors contributing to the success of R-A theory are discussed in Hunt (2011a).

The purpose of this article is to provide, from the perspective of one of the original coauthors, a personal retrospective on six of the key events/experiences that influenced the development of R-A theory, as the structure, foundational premises, and models of the theory are articulated in Hunt and Morgan (1995, 1996, 1997) and Hunt (1995, 1997a, b, c, d). I call these events/experiences “realizations” because each of them resulted in Robert Morgan and/or me realizing the existence or importance of some issue, concept, approach, theory, or state of affairs. These realizations contributed to the development of specific aspects of R-A theory or to the empirical evidence for the theory.

The six events chronicled here, stated succinctly, are:

- (1) B.J. “Bud” LaLonde emphasizes the works of Alderson (1957, 1965).
- (2) Rob Morgan suggests an article on the resource-based theory of the firm.
- (3) Roy Howell suggests a presentation on R-A theory.
- (4) Randy Sparks shows me a “socialist calculation” article.
- (5) Kim Boal suggests the *Journal of Management Inquiry* as a publication outlet.
- (6) Bob Phillips discusses his work on “firm effects vs industry effects.”

I begin the article with a brief review of R-A theory, before discussing each of the six events and their impact on the development of R-A theory. I then relate each event to the paths, routes, or procedures that are often proposed as (or reported to be) likely to lead to the development of theories. Throughout the article, I provide implications for theory development.

### **The resource-advantage theory of competition**

Resource-advantage theory is an evolutionary, process theory of competition that is interdisciplinary in the sense that it has been developed in the literatures of several different disciplines. These disciplines include marketing (Hunt, 1997a, 1999, 2000b, c, 2001, 2002a, b, 2009, 2011a, b; Hunt and Arnett, 2001, 2003, 2004; Hunt and Derozier, 2004; Hunt and Madhavaram, 2006a, b; Hunt and Morgan, 1995, 1996, 1997, 2005; Morgan and Hunt, 2002), management (Hunt, 1995, 2000a; Hunt and Lambe, 2000), economics (Hunt, 1997b, c, d, 2000d, 2002c), ethics (Arnett and Hunt, 2002), law (Grengs, 2006), supply chain management (Hunt and Davis, 2008), and general business (Hunt, 1998; Hunt and Arnett, 2006; Hunt and Duhan, 2002). R-A theory is also interdisciplinary in that it draws on, and has affinities with, numerous other theories and research traditions, including evolutionary economics, “Austrian” economics, the historical tradition, the resource-based tradition, the competence-based tradition, institutional economics, and economic sociology.

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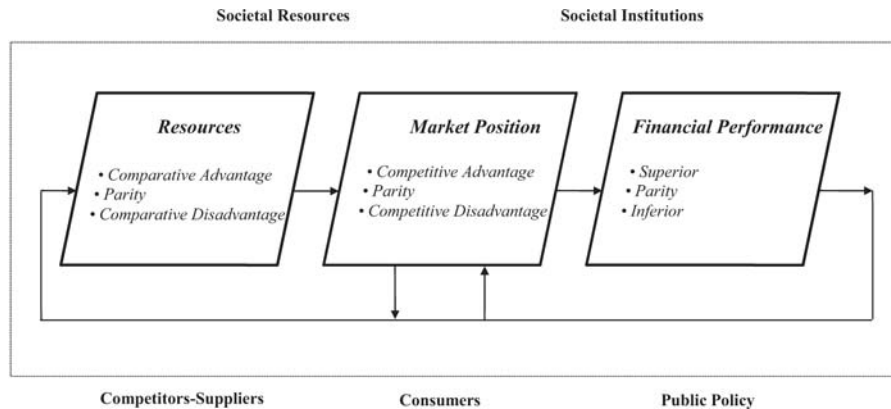
The theory that has been developed since Hunt and Morgan (1995), resource-advantage (R-A) theory, is an evolutionary, process theory of competition. Because all theories are derived from their foundational premises, understanding the theory requires understanding its premises. As explicated in Hunt (2000b), the foundational premises of R-A theory are:

- P1.* Demand is heterogeneous across industries, heterogeneous within industries, and dynamic.
- P2.* Consumer information is imperfect and costly. (Here, R-A theory uses “consumers” in its broadest sense, which includes business and other buyers.)
- 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.

#### *The structure and foundations of R-A theory*

My overview of the structure and foundations of R-A theory will follow closely the theory’s treatment in Hunt (2000b). Resource-advantage theory is a general theory of competition that describes the process of competition. Figures 1 and 2 provide schematic depictions of R-A theory’s key constructs. Using Hodgson’s (1992) taxonomy, R-A theory is an evolutionary, disequilibrium-provoking, process theory of competition, in which innovation and organizational learning are endogenous, firms and consumers have imperfect information, and in which entrepreneurship, institutions, and public policy affect economic performance. Evolutionary theories of competition require entities that can serve as the units of selection in an evolutionary process. These entities must be relatively durable, that is, they can exist, at least potentially, through long periods of time, and heritable, that is, they can be transmitted to successors. For R-A theory, both firms and resources are proposed as the heritable, durable entities of selection, and competition for comparative advantages in resources constitutes the evolutionary selection process.

At its core, R-A theory combines heterogeneous demand theory with a resource-based view of the firm (see premises *P1*, *P6*, and *P7*). Contrasted with perfect competition, heterogeneous demand theory views intra-industry demand as significantly heterogeneous with respect to consumers’ tastes and preferences. Hence, it is inappropriate to draw demand curves for most industries. Indeed, because of heterogeneous intra-industry demand, industries are best viewed as collections of market segments. Therefore, viewing products as bundles of attributes, different



**Figure 1.**  
A schematic of the  
resource-advantage theory  
of competition

Read: Competition is the disequilibrating, ongoing process that consists of the constant struggle among firms for a comparative advantage in resources that will yield a marketplace position of competitive advantage and, thereby, superior financial performance. Firms learn through competition as a result of feedback from relative financial performance “signaling” relative market position, which, in turn signals relative resources

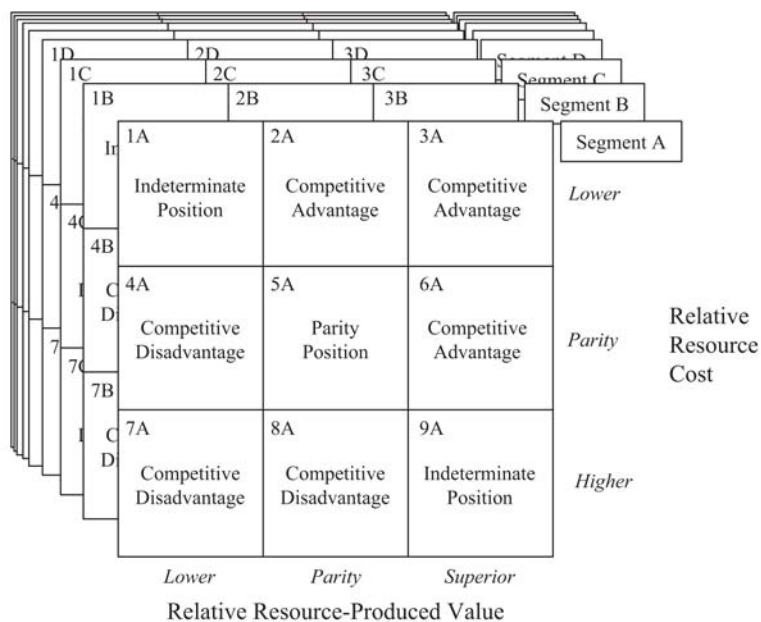
**Source:** Adapted from Hunt and Morgan (1997)

market offerings (or “bundles” of attributes) are required for different market segments within the same industry.

Contrasted with the view that the firm is a production function that combines homogeneous, perfectly mobile “factors” of production, the resource-based theory of the firm holds that the firm is a combiner of heterogeneous, imperfectly mobile entities that are labeled “resources.” These heterogeneous, imperfectly mobile resources, when combined with heterogeneous demand, imply significant diversity as to the sizes, scopes, and levels of profitability of firms within the same industry.

As diagramed in Figures 1 and 2, R-A theory stresses the importance of market segments, heterogeneous firm resources, comparative advantages/disadvantages in resources, and marketplace positions of competitive advantage/disadvantage. In brief, market segments are defined as intra-industry groups of consumers whose tastes and preferences with regard to an industry’s output are relatively homogeneous. Resources are defined as the tangible and intangible entities available to the firm that enable it to produce efficiently and/or effectively a market offering that has value for some market segment(s). Thus, resources are not just land, labor, and capital, as in neoclassical theory. Rather, resources can be categorized as:

- financial (e.g. cash resources, access to financial markets);
- physical (e.g. plant, equipment);
- legal (e.g. trademarks, licenses);
- human (e.g. the skills and knowledge of individual employees);
- organizational (e.g. competences, controls, policies, culture);
- informational (e.g. knowledge from consumer and competitive intelligence); and
- relational (e.g. relationships with suppliers and customers).



Read: The marketplace position of competitive advantage identified as Cell 3A, for example, in segment A results from the firm, relative to its competitors, having a resource assortment that enables it to produce an offering that (a) is perceived to be of superior value by consumers in that segment and (b) is produced at lower costs than rivals.

**Note:** Each competitive position matrix constitutes a different market segment (denoted as segment A, segment B...)

**Source:** Adapted from Hunt and Morgan (1997)

**Figure 2.**  
Competitive position  
matrix

Each firm in the marketplace will have at least some resources that are unique to it (e.g. very knowledgeable employees, efficient production processes, etc.) that could constitute a comparative advantage in resources that could lead to positions of competitive advantage (i.e. cells 2, 3, and 6 in Figure 2) in the marketplace. Some of these resources are not easily copied or acquired (i.e. they are relatively immobile). Therefore, such resources (e.g. culture, competences, and processes) may be a source of long-term competitive advantage in the marketplace.

Just as international trade theory recognizes that nations have heterogeneous, immobile resources, and it focuses on the importance of comparative advantages in resources to explain the benefits of trade, R-A theory recognizes that many of the resources of firms within the same industry are significantly heterogeneous and relatively immobile. Therefore, analogous to nations, some firms will have a comparative advantage and others a comparative disadvantage in efficiently and/or effectively producing particular market offerings that have value for particular market segments.

Specifically, as shown in Figure 1 and further explicated in Figure 2, when firms have a comparative advantage in resources, they will occupy marketplace positions of



competitive advantage for some market segment(s). Marketplace positions of competitive advantage then result in superior financial performance. Similarly, when firms have a comparative disadvantage in resources they will occupy positions of competitive disadvantage, which will then produce inferior financial performance. Therefore, firms compete for comparative advantages in resources that will yield marketplace positions of competitive advantage for some market segment(s) and, thereby, superior financial performance. As Figure 1 shows, how well competitive processes work (to, for example, foster productivity and economic growth) is significantly influenced by five environmental factors: the societal resources on which firms draw, the societal institutions that form the “rules of the game” (North, 1990), the actions of competitors and suppliers, the behaviors of consumers, and public policy decisions.

R-A theory places great emphasis on innovation, both proactive and reactive. The former is innovation by firms that, although motivated by the expectation of superior financial performance, is not prompted by specific competitive pressures – it is genuinely entrepreneurial in the classic sense of entrepreneur. In contrast, the latter is innovation that is directly prompted by the learning process of firms’ competing for the patronage of market segments. Both proactive and reactive innovation can be “radical” or “incremental,” and both contribute to the dynamism of R-A competition.

Firms (attempt to) learn in many ways – by formal market research, seeking out competitive intelligence, dissecting competitor’s products, benchmarking, and test marketing. What R-A theory adds to extant work is how the process of competition itself contributes to organizational learning. As the feedback loops in Figure 1 show, firms learn through competition as a result of the feedback from relative financial performance signaling relative market position, which in turn signals relative resources. When firms competing for a market segment learn from their inferior financial performance that they occupy positions of competitive disadvantage (see Figure 2), they attempt to neutralize and/or leapfrog the advantaged firm(s) by acquisition and/or innovation. That is, they attempt to acquire the same resource as the advantaged firm(s) and/or they attempt to innovate by imitating the resource, finding an equivalent resource, or finding (creating) a superior resource. Here, “superior” implies that the innovating firm’s new resource enables it to surpass the previously advantaged competitor in terms of either relative costs (i.e. an efficiency advantage), or relative value (i.e. an effectiveness advantage), or both.

Firms occupying positions of competitive advantage can continue to do so if they continue to reinvest in the resources that produced the competitive advantage, and rivals’ acquisition and innovation efforts fail. Rivals will fail (or take a long time to succeed) when an advantaged firm’s resources are either protected by such societal institutions as patents, or the advantage-producing resources are causally ambiguous, socially or technologically complex, tacit, or have time compression diseconomies.

Competition, then, is viewed as an evolutionary, disequilibrium-provoking process. It consists of the constant struggle among firms for comparative advantages in resources that will yield marketplace positions of competitive advantage and, thereby, superior financial performance. Once a firm’s comparative advantage in resources enables it to achieve superior performance through a position of competitive advantage in some market segment(s), competitors attempt to neutralize and/or leapfrog the advantaged firm through acquisition, imitation, substitution, or major innovation. R-A theory is, therefore, inherently dynamic. Disequilibrium, not equilibrium, is the norm.

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In the terminology of Hodgson's (1992) taxonomy of evolutionary economic theories, R-A theory is non-consummatory: it has no end-stage, only a never-ending process of change. The implication is that, though market-based economies are moving, they are not moving toward some final state, such as a Pareto-optimal, general equilibrium.

The next section starts my discussion of six events/experiences that influenced the development of resource-advantage theory. Although there were numerous other factors that influenced R-A theory's development, these six are certainly important ones. The retrospective begins with an event that occurred in my doctoral program.

### **Bud LaLonde emphasizes Alderson**

My doctoral program at Michigan State University in the 1960s set the stage for the development of R-A theory. The doctoral seminar on marketing theory was taught in the summer of 1967 by B.J. "Bud" LaLonde. His seminar focused on theory development and the critical evaluation of the works of prominent marketing theorists. In particular, the seminar devoted much time to Wroe Alderson's works, especially his two books aimed at developing a general theory of marketing (Alderson, 1957, 1965). His functionalist theory of market processes justified his 1965 book's subtitle, *A Functionalist Theory of Marketing*. This theory enabled Alderson to explain how market processes can take conglomerate resources in the natural state and bring about meaningful assortments of goods in the hands of consumers. A key part of his theory of market processes was what he called "competition for differential advantage," which was based on the work of Clark (1954, 1961).

When I compared Alderson's differential advantage theory to the neoclassical, static equilibrium theory of competition, I found Alderson's theory to portray more accurately the process of competition that I had experienced in my previous career in industrial sales. Accordingly, in 1969, when I started teaching marketing management and marketing theory at the University of Wisconsin, Madison, I relied heavily on Alderson's theory as a foundation. Also, starting with the first version of *Marketing Theory* (Hunt, 1976), I discussed differential advantage theory and, for example, used it to explain how the "wheel of retailing" works. Later, my colleagues and I partially formalized Alderson's theory (Hunt *et al.*, 1981).

The book by Wooliscroft *et al.* (2006) shows how Alderson's works are relevant to modern marketing. Hunt and Arnett (2006), which appears in that volume, discuss in detail how R-A theory extends Alderson's differential advantage theory. Indeed, the fact that R-A theory extends Alderson's theory is one of the arguments in favor of R-A theory being toward a general theory of marketing (Hunt, 2010). That discussion is not repeated here. What needs emphasizing in this article is that the stress that LaLonde's theory seminar placed on the importance of Alderson's theory in 1967 laid the groundwork for the development of R-A theory in 1994. LaLonde's seminar prompted me to realize that Alderson's theory would be a good starting point for developing both a general theory of competition and a general theory of marketing. Thank you, Bud.

### **Rob Morgan suggests a "resource-based" article**

In the spring of 1994, Rob Morgan suggested that we coauthor an article based on the "resource-based" theory of strategy that was being developed in the strategic management literature. In this literature, many writers were suggesting that strategy had been misguided by adopting "industry" as the central focus of strategy



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development. These new authors were arguing that managers should focus on developing and acquiring rare, valuable, and inimitable resources as a means for achieving “rents,” that is, profits in excess of those achieved by a firm under the conditions of perfect competition. The original article that we considered writing was one that developed a new schema for categorizing the various kinds of resources. Indeed, we went so far as to prepare an outline of the structure of the proposed article.

As part of our review, we came across an article by Conner (1991), in which she argued that any theory of the firm should be able to explain the reasons for the existence of firms and what limits their sizes and scopes. Furthermore, she argued that the resource-based theory of strategy, with its focus on heterogeneous, imperfectly mobile resources, constituted the beginnings of a new theory of the firm. We found her arguments to be persuasive. However, Rob and I came to a joint realization: if we were to join the resource-based theory of the firm with heterogeneous demand theory and Alderson’s (1957, 1965) theory of differential advantage, we might be able to develop a new theory of competition.

After several months of research, we developed a manuscript on the proposed new theory and targeted it to the *Journal of Marketing*. The original submission, which went to the *Journal of Marketing* on 1 July 1994, had several key characteristics. First, it defined “resources” as those tangible or intangible entities that were available to firms that enabled them to produce, efficiently and/or effectively, market offerings that had value to any market segment. Second, it provided a set of foundational premises for the theory. Third, it provided a key diagnostic tool for understanding competitive advantage, which we labeled the “competitive position matrix.” Fourth, it distinguished between two very different kinds of advantages. Specifically, it distinguished clearly the differences between comparative advantages in resources and marketplace positions of competitive advantage. Furthermore, it theorized that it is comparative advantages in resources that lead to marketplace positions of competitive advantage, which, in turn, lead to superior financial performance. Fifth, it used the new theory, with its focus on heterogeneous, imperfectly mobile resources, to explain firm diversity. Sixth, it used the new theory to contribute to explaining the differences in abundance, innovation, and quality that had been observed between market-based and command economies. Seventh, it explored the issue of whether a firm’s market-orientation can be a resource that can lead to sustained, superior financial performance.

An industrial organization economist once reviewed R-A theory and commented that only someone in marketing could have developed the theory. Management theorists, he indicated, could not have developed the theory because they are unfamiliar with Alderson’s differential advantage theory. Furthermore, he argued, though management theorists are aware of segmentation theory, it is not central to their thought, as it is in marketing. Finally, he argued, management theorists seem uninterested in the public policy implications of business strategy. Indeed, most strategy theorists seem to accept the neoclassical view that the purpose of strategy is to create market “imperfections” and achieve “rents.” Therefore, they implicitly accept the neoclassical view that, because perfect competition theory describes a form of competition that is, from society’s perspective, perfect, the strategies that management theorists advocate for firms are anti-competitive and, therefore, anti-social.

In contrast, the industrial organization economist pointed out, R-A theory rejects the view that the stagnation implied by neoclassical perfect competition is socially

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desirable. That is, R-A theory views the dynamic competition described by it as desirable because it leads to (among other things) increases in productivity and economic growth. Real competition is disequilibrating. Therefore, for R-A theory, the stagnation implied by general equilibrium – far from being perfect – is actually a market failure writ large.

The resource-based (RBV) theory of the firm is a key component of R-A theory. Because both R-A theory and RBV view firms as combiners of heterogeneous, imperfectly mobile resources, it is easy to understand how some academics might view them as the same theory. However, the differences are numerous. For example, works on RBV generally:

- view RBV as exclusively a theory of the firm;
- view innovation as exogenous to the firm;
- view competition among firms to be equilibrating;
- view demand as outside their theory;
- confound marketplace positions of competitive advantage with the comparative advantages in resources that lead to the positions of competitive advantage;
- view the firm as seeking “economic rents” (and, by implication, view firms’ behavior as undesirable for society); and
- are silent with respect to the public policy implications of RBV.

In contrast, R-A theory:

- is a theory of competition that includes a theory of the firm;
- views innovation as endogenous to the process of firms’ competing;
- views competition among firms to be evolutionary and disequilibrating;
- incorporates a theory of demand;
- clearly distinguishes marketplace positions of competitive advantage from the comparative advantages in resources that lead to the positional advantages;
- views the firm as seeking superior financial performance (and shows how this pursuit is highly beneficial to society); and
- maintains that the theory has public policy implications and, indeed, has developed such implications in Hunt (2000b, 2007), Hunt and Arnett (2001), and Grengs (2006).

Sometimes working on one concept or theory provides a key impetus for developing a different concept or theory. In R-A theory’s case, Rob Morgan’s suggestion that we work on developing a new schema for categorizing resources led us to study Conner’s (1991) article. In turn, this led us to realize that if we were to join the resource-based theory of the firm with heterogeneous demand theory and Alderson’s (1957, 1965) theory of differential advantage, we might be able to develop a new theory of competition. Thank you, Rob.

### **Roy Howell suggests a presentation on R-A theory**

The original article (i.e. Hunt and Morgan, 1995) was accepted for publication in the *Journal of Marketing* by Editor Rajan Varadarajan in early December of 1994. At about

the same time, Roy Howell suggested that I present R-A theory to our faculty and doctoral students at the earliest possible opportunity. After agreeing to present it at the Doctoral Colloquium scheduled for February 24, 1995, I began preparing transparencies. At the minimum, I intended that my presentation should focus on Hunt and Morgan's (1995) Table I (which compared the foundational premises of R-A theory to the premises of neoclassical, perfect competition theory) and Figure 1 (which detailed the marketplace positions of competitive advantage and disadvantage). However, what I did not have was a figure that represented the dynamic nature of R-A competition. In the text, Rob and I explained competition this way:

Competition, then, consists of the constant struggle among firms for a comparative advantage in resources that will yield a marketplace position of competitive advantage and, thereby, superior financial performance. Once a firm's comparative advantage in resources enables it to achieve superior performance through a position of competitive advantage in some market segment or segments, competitors attempt to neutralize and/or leapfrog the advantaged firm through acquisition, imitation, substitution, or major innovation. The comparative advantage theory of competition is, therefore, inherently dynamic. Disequilibrium, not equilibrium, is the norm, in the sense of normal state of affairs (Hunt and Morgan, 1995, p. 8).

The text explaining competition was good, I thought, but what I needed for an effective presentation was a figure that captured the key details. I came up with a figure that seemed desirable for the presentation. Indeed, on further reflection about the already accepted *Journal of Marketing* article, I thought it might benefit from the figure. Since Rob and I had not yet received the page proofs from *Journal of Marketing (JM)* for the article, I sent the figure to editor Varadarajan and asked if the figure could be included in the printed article. He reviewed the figure, and we discussed where in the article it could be inserted. He concluded that the article's exposition of the theory would benefit from the figure, and it was added as "Figure 2" in the printed article, with the title of "The comparative advantage theory of competition."

Figure 2 in Hunt and Morgan (1995), as I shall discuss later in this article, was not a very good depiction of R-A theory – but it was much better than no figure at all. Two points should be emphasized here: figures are very important for illustrating complex theories, and the necessity of presenting your ideas to others can prompt the development of effective ways for communicating the nature of a theory. Necessity is, indeed, the mother of invention. Roy Howell's suggestion that I present R-A theory to our faculty and doctoral students prompted me to realize that I needed to develop a figure depicting the structure of R-A theory. Thank you, Roy.

### **Randy Sparks shows me a "socialist calculation" article**

I have always been favored with gifted, academically oriented, and thoughtful doctoral students. Their efforts have enriched my work immensely. They often do so just by bringing something to my attention. John R. "Randy" Sparks, whose help we acknowledged in the authors' footnote of Hunt and Morgan (1995), was one of my doctoral students in the 1990s. Late in October of 1994, Randy gave me copies of several articles that he thought might relate to R-A theory. One article was an "Austrian" economics article titled "Recent reinterpretations of the socialist calculation debate" (Keizer, 1989). In the article – published in the very year that the Berlin Wall fell – the author discusses both the "standard interpretation" of mainstream economics

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and several “reinterpretations” by Austrian economists of the “socialist calculation debate” between socialist economists and Austrian economists. I read the article in November, 1994, after editor Varadarajan had conditionally accepted the original R-A theory article for publication.

Although I had some familiarity with Austrian economics, I was unaware of the details of the socialist calculation debate. Keizer’s (1989) article explained that the debate’s central question was “[Can] one central authority [...] solve the problem of distributing a limited amount of resources between a practically infinite number of competing purposes [...] with a degree of success equating or approaching the results of competitive capitalism?” (Hayek, 1935/1948, pp. 130-131). Austrian economists argued for the superior resource-allocation efficiency of capitalism; socialists argued for central planning. Not surprisingly, Hayek (1978, p. 235) believed that “anybody studying these discussions” would surely conclude that any “attempt at centralized collectivist planning of a large economic system was [...] bound greatly to decrease productivity.” Also unsurprisingly, socialist economists claimed they clearly won the debate:

Lange thus not only refutes the antisocialist case of Mises and his followers but [...] [shows] that socialism possesses definite advantages where they [the “Austrians”] regard it as most vulnerable (Sweezy, 1949, p. 231).

What surprised me, however, was that Keizer (1989) showed that the consensus among neoclassical economists, economic historians, and specialists in comparative economic systems was that the socialist economists had shown that the equations of perfect competition theory and general equilibrium provide no theoretical grounds for predicting that market-based economies would be more productive than command economies. That is, Keizer (1989) reported that the “standard interpretation” of the debate by neoclassical economists was that socialist economists had used the equations of neoclassical theory and “proved that a Central Planning Board could impose rules upon socialist managers which allocated resources and set prices as efficiently as a capitalist society of the purest stripe and more efficiently than the capitalist communities of experience” (Lekachman, 1959, pp. 396-397).

I was stunned. After spending several days researching the socialist calculation debate, I found that Keizer’s (1989) summary of the debate was accurate.

Editor Varadarajan had conditionally accepted our “Comparative advantage” article in a letter dated 10 November 1994. The conditions were that we shorten the manuscript and respond constructively to his and the reviewers’ concerns with the previous draft. Rob and I revised the manuscript accordingly, but we now knew that one of our arguments was seriously misleading. We had pointed out that “why economies premised on competition are far superior to command economies in terms of the quantity, quality, and innovativeness of goods and services produced is a macro-level question that should be answered by any satisfactory theory of competition” (Hunt and Morgan, 1995, p. 2). Furthermore, we had argued in the conditionally accepted version that neoclassical theory could contribute to explaining the superior abundance of market-based economies on the basis that “command economies misallocate resources” (Hunt and Morgan, 1995, p. 3). We now knew that neoclassical economists, in fact, do not interpret their equations this way. What should we do?

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After extensive discussion, Rob and I decided to make two small changes in the final revision we sent to editor Varadarajan in December, 1995. First, we added the word “potentially” in the following sentence:

Therefore, neoclassical theory could potentially explain abundance by focusing on the efficiency of perfect competition (Hunt and Morgan, 1995, p. 3).

We then added a new footnote four that read, in part:

We add the qualifier “potentially” because in fact the standard view of neoclassicists up until the collapse of the Eastern bloc was that neoclassical theory provided no grounds for preferring market-based over command economies (Hunt and Morgan, 1995, p. 3).

In the cover letter to Editor Varadarajan that accompanied the revised manuscript, I included the following paragraph:

Finally, please note that footnote four was not in the previous version. The information in footnote four only recently came to our attention. We thought this information would be of great interest to *JM* readers (it certainly was to us). We believe we now have a better understanding of why so many neoclassical economists, including Nobel Laureate Paul Samuelson, have always been so sympathetic to planned economies. Perfect competition, as interpreted by them, provided no grounds for doing otherwise.

I do not review the details of the socialist calculation debate here. Readers interested in the debate, I suggest, might start with the expositions in Hunt (2000b), Keizer (1989), and Lavoie (1985). The point to be emphasized here is that doctoral students can influence the development of theories in many ways. Clearly, the recognition by Randy Sparks that the Keizer (1989) article might be of relevance to R-A theory, and Randy’s sharing it with me, changed how I viewed the differences between neoclassical theory and R-A theory. It also influenced subsequent articles on R-A theory, as I will discuss. Thank you, Randy.

### **Kim Boal suggests the *Journal of Management Inquiry* as a publication outlet**

It was clear that R-A theory had implications for other disciplines, especially management and economics, but the “silo” nature of disciplines meant that academics in management and economics would be unlikely to read a marketing article putting forth a new theory of competition, let alone give it serious consideration. In December of 1994, I began searching for a management journal that might be receptive to an article on R-A theory. Given what I had learned from being exposed to the socialist calculation debate, I wanted to develop an article that would focus on R-A theory’s approach to productivity and economic growth, while at the same time providing readers a brief overview of the socialist calculation debate. A major problem, as I saw it, was that most management journals do not customarily publish theories that have macro, public policy dimensions.

I spoke about possible management publication outlets with Kim Boal, a colleague and management professor colleague at Texas Tech University, who was working on developing resource-based strategy (Black and Boal, 1994) and who had provided helpful comments on an early draft of Hunt and Morgan (1995). He strongly suggested that I consider the *Journal of Management Inquiry* (*JMI*) as a publication outlet for the proposed article because it is, compared with other management journals, much more

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receptive to provocative new concepts, approaches, and theories. Also, he indicated that the editorial policy of *JMI* emphasized constructive and timely reviews. The experience that I had had in a previous submission to *JMI* was consistent with his recommendation. Therefore, I began working on a new, R-A theory article that was targeted at *JMI*.

The new article was positioned as an extension of Hunt and Morgan (1995) and, as I had planned, it focused on R-A theory, productivity, economic growth, and the socialist calculation debate. This new article gave me an opportunity to revisit the issue of how to develop a figure that would adequately convey to readers the dynamic nature of R-A competition. Also, I had by then determined that a satisfactory figure should attempt to inform readers how R-A competition is a learning process.

Starting from the (unsatisfactory) Figure 2 in Hunt and Morgan (1995, p. 9), the model that I developed came to be referred to by many marketers as the “three box” model. The first box included the label “resources” and three bullets identifying “comparative advantage,” “parity,” “comparative disadvantage.” The second box included the label “market position” and, also, three bullets: “competitive advantage,” “parity,” “competitive disadvantage.” The third box included the label “financial performance” and, three bullets: “superior,” “parity,” “inferior.” To indicate that R-A competition is an ongoing process, there were arrows between the first and second box, as well as between the second and third box. Also, to highlight that R-A competition is a learning process, there were arrows leading from “financial performance” back to “market position,” as well as arrows leading from “market position” back to “resources.” The figure was labeled as “Figure 1: A schematic of the resource-advantage theory of competition.” The following appeared below the model:

Competition is the disequilibrating, ongoing process that consists of the constant struggle among firms for a comparative advantage in resources that will yield a marketplace position of competitive advantage and, thereby, superior financial performance. Firms learn through competition as a result of feedback from relative financial performance “signaling” relative market position, which, in turn, signals relative resources.

*JMI* did, indeed, provide me a rapid turnaround and some very constructive suggestions for revision. After revising the article, the editor accepted it with the title, “The resource-advantage theory of competition: toward explaining productivity and economic growth” (Hunt, 1995). Reviewers and others informed me that Figure 1 on page 318 of that article was a much better depiction of the dynamic process of R-A competition than the previous Figure 2 in Hunt and Morgan (1995). I agreed with them. Also, I believed that the discussion of R-A theory’s approach to productivity and economic growth improved upon the previous efforts in Hunt and Morgan (1995). Furthermore, the discussion of the socialist calculation debate was, I believed, helpful to readers in assisting them in understanding the nature of R-A competition and the deficiencies of neoclassical, perfect competition theory. Finally, the “three box” model in Hunt (1995) became the foundation for Figure 1 in Hunt and Morgan (1996, p. 108, 1997, p. 78), which, in turn, is very close to the now-standard depiction of the structure of R-A theory, as reprinted in this article as Figure 1 (the one small change is that, through time, “competitors” came to be replaced with “competitors-suppliers”). The *JMI* article became a key building block in developing the R-A theory research program. Indeed, Hunt (1995) became one of the most frequently cited articles developing the theory. The point to emphasize here is that authors developing theories



in marketing are often influenced by helpful suggestions of their colleagues in other departments. In R-A theory's case, Kim Boal's suggestion to consider *JMI* as a potential outlet for an article influenced the course of the theory's development. Thank you, Kim.

### **Bob Phillips discusses “firm effects versus industry effects”**

As I indicated earlier, Rob Morgan and I began work on R-A theory in the spring of 1994. By summer, 1994, we had developed a complete draft. An important part of that draft, which was included in the final, printed version of Hunt and Morgan (1995, p. 2), was that any satisfactory theory of competition should satisfactorily explain the micro phenomenon of firm diversity. Specifically, the theory should explain why market-based economies have such an extraordinarily diverse, ever-changing assortment of firms. The concept of firm diversity included differences in the size, scope, and profitability of firms. A key issue concerning firm diversity is the relative importance of “industry,” “firm,” and “business unit” in explaining the variance in the observed differences in profitability.

In the strategic management literature, the works of Schmalensee (1985) and Porter (1985) supported the view that most of the differences in profitability can be explained by industry structure (therefore, “choosing industry” should be the starting point for strategy). In contrast, the works of Cubbin and Geroski (1987), Hansen and Wernerfelt (1989), and Rumelt (1991) supported the view that most of the variance in profitability can be explained by differences in the effectiveness of individual business units (therefore, finding, acquiring, and developing resources and/or capabilities should be emphasized in strategy).

Rob and I thought that those reporting that business-unit effects explained most of the variance in firm performance had the better case. Therefore, the original draft of Hunt and Morgan (1995) in the summer of 1994 argued that the empirical evidence on firm profitability favored the view of R-A theory that the key factor determining firm profitability was firm-level resources, not industry structure. Therefore, we argued that the empirical evidence on firm profitability supported R-A theory, when compared with neoclassical theory.

In late summer of 1994, I showed our original draft to Robert L. “Bob” Phillips, a Texas Tech University management professor, who had expressed an interest in the article. He reviewed the manuscript and came back with two suggestions. First, he recommended that we find another name for the theory because, he said, “comparative advantage theory” was so closely associated with international trade that readers would find the label confusing. Second, he informed me of his work on financial performance diversity work with Jaime A. Roquebert and Peter A. Westfall, both at Texas Tech University. He showed me a draft of their manuscript. I found it fascinating, for I realized that his findings made the case for R-A theory much more conclusive.

As to Bob's suggestion to find another name for the theory because readers would find “comparative advantage” confusing, Rob Morgan and I decided to “hedge our bets” by inserting a new footnote 1 in a revision in the fall of 1994:

Given the prominent role of the resource-based theory of the firm in our theory, an alternative, equally appropriate label would be the resource-advantage theory of competition (Hunt and Morgan, 1995, p. 1).

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By mid-1995, we came to the conclusion that Bob Phillips was right, in that many readers found the “comparative advantage” title confusing. Accordingly, all future articles used the resource-advantage (R-A) theory label, starting with Hunt (1995).

As to Bob’s work on financial performance diversity work with Jaime Roquebert and Peter Westfall, we were able to incorporate it in Hunt and Morgan (1995) on pages 9-10, and we cited it as a working paper. Specifically, we reported:

Roquebert *et al.* (1994) found industry versus total firm effects (corporate plus business unit) effects to be 10 and 57 percent, respectively (Hunt and Morgan, 1995, p. 10).

We noted that the new work on financial performance diversity was especially significant because the sample was much larger (over 6,800 corporations), had a broader base (over 940 standard industrial classification categories), and included both large and small corporations. We could, therefore, make a very strong conclusion:

The accumulated evidence, therefore, strongly supports our theory’s position that environmental factors merely influence, not totally determine, firm performance (Hunt and Morgan, 1995, p. 10).

Thereafter, the article by Bob Phillips and his colleagues was published in the *Strategic Management Journal* with the title, “Markets vs. management: what drives profitability?” (Roquebert *et al.*, 1996). With its publication, the entire discussion in strategic management shifted from whether differences in firm resources effects matter at all (we now know that they matter a great deal) to whether differences in industry characteristics matter at all (we now know that they play a very small role in determining profitability.)

Also thereafter, I started systematically incorporating a discussion of the results of Roquebert *et al.* (1996) into my articles developing R-A theory. The financial performance diversity issue came to be positioned as a “test” of the relative merits of R-A theory versus neoclassical theory (Hunt, 1997b, d). I argued that the reason R-A theory predicts financial performance more accurately than does neoclassical theory is that R-A theory’s premises are a closer approximation to reality. I discussed it this way for the *Journal of Economic Issues*:

If firms are best viewed as combiners of homogeneous, mobile resources by means of a standard production function and intra-industry demand best viewed as homogeneous, then most of the variance in financial performance across firms and their business units should be explainable by the neoclassical structure-conduct-performance model. Empirically, therefore, “industry effects” should explain most of the variance in firms’ performance, and “firm effects” should explain very little. In contrast, if firms are best viewed as combiners of heterogeneous, imperfectly mobile resources, and intra-industry demand is best viewed as heterogeneous [as in R-A Theory], then “firm effects” should dominate “industry effects” (Hunt, 1997b, p. 70).

I believe that being able to use the results of Roquebert *et al.* (1996) as a test of the merits of R-A theory (versus its only competitor, neoclassical perfect competition theory) was instrumental in getting R-A articles accepted in economics and other journals. The point to emphasize here is that it is much easier to develop theories and concepts when one is in an environment in which colleagues are highly active in conducting research. If Bob Phillips and his coauthors had not been at Texas Tech,

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I would not have been exposed to some empirical findings that were highly relevant to R-A theory – at least not until they were ultimately published. Thank you, Bob.

### Discussion

This article has reviewed six events, which led to six realizations, which, in turn, led to six specific contributions to the development of R-A theory. Like the development of most theories, the discussion shows that developing R-A theory has not been a neat, or tidy, or systematic procedure.

In the philosophy of science, the issues involved here are customarily discussed using the “discovery versus justification” distinction. That is, how scientists go about creating or developing hypotheses, laws, and theories is considered to be in the context of discovery. In contrast, how scientists go about explaining phenomena, predicting phenomena, testing theories, and validating hypotheses, laws, and theories is considered to be in the context of justification. If there existed a set of systematic rules and procedures that were optimal for the discovery of hypotheses, laws, and theories, this set of rules and procedures would constitute logic of discovery. Hunt (2010), in Figure 1.1, shows five paths, routes, or procedures that are often proposed or reported to be likely to lead (or have actually led) to the development of theories: eureka, dreams, metaphor recognition, inducing generalizations from data, and deducing generalizations from foundational premises[2]. After arguing that there exists no logic of discovery, Hunt (2010, p. 25) concludes that:

Many, if not most, major scientific discoveries are flashes of perceptual insight and are not the result of following some rigorously prescribed procedure.

So it has been with R-A theory.

#### *The first eureka!*

With respect to the eureka path to discovery, Rob Morgan and I definitely had a eureka! experience when we read Conner’s (1991) article on whether the resource-based theorists were developing a new theory of the firm. That is, the idea suddenly came to us that if we were to join the resource-based theory of the firm with heterogeneous demand theory and Alderson’s theory of differential advantage, we might be able to develop a new theory of competition. Note, however, that if we had not been believers in the value of market segmentation theory, and exposed to Aldersonian theory (and become believers in it), we would not have been able to see that integrating the three theories would be productive. The lesson here, I believe, is that eureka! moments lead to successful theory development only with advance preparation: flashes of perceptual insight are much more likely when they are preceded by thorough preparation.

#### *The second eureka!*

As a second eureka moment, when Randy Sparks suggested that I read the Keizer (1989) article, I recall being absolutely stunned to learn that the consensus among neoclassical economists, economic historians, and specialists in comparative economic systems was that the socialist economists had shown that the equations of perfect competition theory and general equilibrium provide no theoretical grounds for predicting that market-based economies would be more productive than command economies. At first, I believed that Keizer must be mistaken, and I asked many of my

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colleagues if they were aware of how neoclassical economists interpreted their equations. Like me, they had some passing familiarity with “Austrian” economics, but they, also like me, were unaware of how neoclassical economists interpreted their equations. Therefore, I undertook my own investigation of the debate, which convinced me that Keizer’s reporting of neoclassical economists’ interpretation of the socialist calculation debate was, indeed, accurate.

As a result of this eureka moment, I was able to better understand the extant arguments about productivity and economic growth. This better understanding enabled me to provide stronger arguments in favor of the explanatory and predictive power of R-A theory. In retrospect, Rob Morgan and I had provided a much more charitable interpretation of neoclassical theory than did neoclassical economists, themselves.

#### *The deductive route*

As to the deductive route to discovery, Rob and I relied heavily on developing the foundational premises of R-A theory. We anticipated that the premises would provoke extensive discussion, which would lead to subsequent refinement. The extensive discussion has not developed. Indeed, since Hunt (1995), the list of nine foundational premises has remained constant, unchallenged. No one seems to disagree with the proposal that R-A theory’s nine premises accurately convey the descriptively realistic general case of competition.

Also as to the deductive route to discovery, recall that we originally compared R-A theory’s premises with those of neoclassical, perfect competition theory. At times, R-A theory’s critics have characterized perfect competition theory as a “straw man” competitor and have argued that R-A theory should be compared with stronger rivals. We anticipated that those who believe that there are stronger rivals would put forth the premises and structures of such rivals, for it is only by comparing rival structures and premises that one can clearly evaluate how and why theories are consistent or inconsistent, are saying different things or saying the same things differently, or are genuinely rival or actually complementary. To date, no rivals have been offered. Is it the case that no rival exists?

#### *The inductive route*

As to the inductive route to discovery, note that we did not develop R-A theory from inducing generalizations from data. Rather we used the results of analyzing data on “firm effects” versus “industry effects” as a test of R-A theory. That is, we made an inductive inference that the results of the study by Roquebert *et al.* (2006), among others, supported the validity, the truth content, of R-A theory. It could be the case that some theories owe their development to processes and procedures that may be properly referred to as “data mining.” However, there was no use of data mining in the development of R-A theory.

#### *The metaphor recognition route*

As to the metaphor recognition route to discovery, note that R-A theory is an evolutionary, process theory of competition. Therefore, R-A theory adopts biological evolution as an underlying metaphor. Specifically, Hunt and Morgan (1996) cite the evolutionary economics’ works of Foss (1991), Hodgson (1992), and Nelson (1995) to

argue that R-A theory is a phylogenetic, nonconsummatory, evolutionary theory of competition. We also argue that both firms and resources are the heritable, durable entities of evolutionary selection, and competition for comparative advantages in resources constitutes the evolutionary selection process. The process results in the “locally fitter,” not the “maximally fittest,” because the process results in the survival of resources and firms that are, relative to their competitors, more efficient and/or effective at a point in time in producing market offerings for particular segments.

However, the use of metaphor recognition to develop a theory often implies that the metaphor was used in the original creation of the theory. If we use “original” to mean Hunt and Morgan (1995), we did not use metaphor recognition at that time. Although R-A theory was described as a dynamic process theory of competition, the word “evolutionary” does not appear in the original article. The “evolutionary argument” for R-A theory appeared a year later, in Hunt and Morgan (1996). Here is how the evolutionary argument came about.

In mid-1995, I searched for an economics journal that might be willing to consider an article developing a dynamic theory of competition. The problem, as extensively documented by Nelson and Winter (1982), was (is) that almost all contemporary economics journals restrict themselves to works based on (or consistent with) the orthodoxy of static equilibrium economics. I spent hours searching the stacks of our library for an economics journal that might give serious consideration to an article developing a new, dynamic theory of competition. I finally found *The Journal of Economic Issues (JEI)*, which is sponsored by the Association of Evolutionary Economics[3]. The journal and its association favored institutional economics and is opposed to the orthodoxy of static equilibrium.

Over a period of several days, I reviewed ten years of *JEI* articles, identifying and reading every article that discussed anything that might be related to the domain of competition. Because I was unfamiliar with many of the cited references, I also read much of the literature base that *JEI* articles drew on. My review led me to believe that they might, just might, be open to an article that focused on a new theory of competition that was being developed outside economics, that is, in marketing and management. The article that I developed argued that R-A theory was an evolutionary theory of competition, and compatible with current institutional theory. My research in preparation for writing the *JEI* article provided the foundation for the “evolutionary argument” that first appeared in Hunt and Morgan (1996).

The *JEI* reviews of my paper were critical and detailed, but also fair and constructive. After two revisions, the article was accepted in April of 1996, but with the specific provision that the title be changed from “Resource-advantage theory: an evolutionary theory of competition?” to “Resource-advantage theory: an evolutionary theory of competitive firm behavior?” (Hunt, 1997c). The editor and reviewers insisted on the change because they believed that all economists so strongly associate “competition” with perfect competition that identifying R-A theory as a theory of competition would “confuse” them.

Note how deeply embedded is neoclassical, perfect competition theory. Even economists who are opposed to perfect competition theory will be “confused” if any other theory refers to itself as a theory of competition. If neoclassical, perfect competition theory is a “straw man,” it is the most powerful straw man ever created.

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The preceding shows how metaphor recognition has played a role in developing R-A theory, even though it did not play a role in the original statement of the theory, as put forth in Hunt and Morgan (1995). The point to emphasize here is for authors with new approaches to an issue: sometimes the fact that publication “doors” are closed to you can result in your finding publication outlets that you do not know even exist. The fact that almost all contemporary economics journals restrict themselves to works that are based on the orthodoxy of static equilibrium economics forced me to throw a broad net in search of new journal outlets. In turn, finding *JEI* prompted me to pursue the evolutionary economics literature, which then enabled me to develop the “evolutionary argument” for R-A theory.

### Conclusion

In conclusion, the preceding recounts some of the events, experiences, and realizations that contributed to the development of R-A theory. Although developing R-A theory has not been a tidy process, which is consistent with the absence of a formal “logic” of scientific discovery, I hope that this retrospective will be of some assistance to others in their own efforts to develop theories of marketing phenomena. Of course, R-A theory is still very much a work in progress, and I look forward to others’ contributing to the further development of the theory. There is still much work to be done.

### Notes

1. It is important to use the quotation marks to make sure that the hits refer exclusively to the particular theory in question, that is, the theory developed in Hunt and Morgan (1995, 1996, 1997).
2. Yadav (2010) suggests additional routes for theory development, including invoking a theory type, moving to another level of analysis, and using interrelations.
3. I also found the *Eastern Economics Journal* and the *Journal of Socio-Economics*, which prompted me to develop articles that were ultimately published as Hunt (1997b) and Hunt (1997d), respectively.

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### About the author

Shelby D. Hunt is the Jerry S. Rawls and P.W. Horn Professor of Marketing at Texas Tech University, Lubbock, Texas. A past editor of the *Journal of Marketing* (1985-1987), he is the author of numerous books, including *Marketing Theory: Foundations, Controversy, Strategy, Resource-Advantage Theory* (M.E. Sharpe, 2010), *Controversy in Marketing Theory: For Reason, Realism, Truth, and Objectivity* (M.E. Sharpe, 2003), and *A General Theory of Competition: Resources, Competences, Productivity, Economic Growth* (Sage Publications, 2000). One of the 250 most frequently cited researchers in economics and business (Thompson-ISI), he has written numerous articles on competitive theory, strategy, macromarketing, ethics, relationship marketing, channels of distribution, philosophy of science, and marketing theory. Three of his *Journal of Marketing* articles, "The nature and scope of marketing" (1976), "General theories and fundamental explananda of marketing" (1983), and (with Robert M. Morgan) "The comparative advantage theory of competition" (1995), won the Harold H. Maynard Award for the "best article on marketing theory." The "Comparative advantage theory of competition" article also won the 2004 Sheth Foundation/*Journal of Marketing* award for its "long term contributions to the field of marketing." His 1985 *Journal of Business Research* article with Lawrence B. Chonko, "Ethics and marketing management," received the 2000 Elsevier Science Exceptional Quality and High Scholarly Impact award. His 1989 article, "Reification and realism in marketing: in defense of reason," won the *Journal of Macromarketing* Charles C. Slater Award. His 1994, *Journal of Marketing* article, "The commitment-trust theory of relationship marketing", with Robert M. Morgan, was the most highly cited article in economics and business in the 1993-2003 decade (Thomson-ISI). For his contributions to theory and science in marketing, he received the 1986 Paul D. Converse Award from the American Marketing Association, the 1987 Outstanding Marketing Educator Award from the Academy of Marketing Science, the 1992 American Marketing Association/Richard D. Irwin Distinguished Marketing Educator Award, the 2002 Society for Marketing Advances/Elsevier Science Distinguished Scholar Award, and the 2010 Marketing Management Association Innovative Marketing Award. In 2011, Sage Publications published the ten-volume set, *Legends in Marketing: Shelby D. Hunt*. The volumes include 132 of Hunt's articles, 41 commentaries on Hunt's work by distinguished scholars, and interviews of Hunt by each volume's editor. The *Legends* Series Editor is Jagdish N. Sheth, and the editors of the ten individual volumes are Paul Busch, Jagdip Singh, Roy D. Howell, James R. Brown, Scott J. Vitell, John R. Sparks, Rajan Varadarajan, Robert M. Morgan, O.C. Ferrell, and Dennis B. Arnett, respectively. Shelby D. Hunt can be contacted at: shelby.hunt@ttu.edu