

# **Impact from the Resource-Based Approach on Strategy and Control; A new Framework for Empirical Research based on the "European Excellence Model"**

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## **ABSTRACT**

**Originality/value:** This paper may be considered as a valuable contribution to integrated studies of theories of change, developing and implementing strategy, decision making and management control.

**Purpose:** This paper discusses the potential use of the EEM model as a basis for a framework for integrated empirical studies of the resource based perspective on strategy and management control. The purpose is also to evaluate if EEM, in this somewhat revised version, can also be used for self-assessment with regard to a certain form of critical process analysis based on the PDCA-circle.

**Methodology/approach:** This paper has emerged as a result of reviews of pertinent literature taken from EEM, Management Control and theories of the Resource Based approach on Strategy (TGF, RBV etc). Further the model has been discussed as a potential model for empirical studies in a global company (in accordance with the Ph licentiate Thesis "Return of Resources; implications from the Resource Based Perspective on Management Control).

**Findings:** The results from this suggested modelling, partly based on a limited empirical study of critical process analysis, shows that this somewhat revised EEM model in a very interesting way, can integrate the resource based strategy and management control processes - in the face of company decision processes (ex ante/ex post). The model can therefore potentially be used as a new framework for empirical studies of the resource based approach on strategy and management control.

**Paper type:** This paper is regarded as a conceptual paper.

**Key words:** EEM, resource based perspective, management control, PDCA, strategy

## INTRODUCTION

Since the mid of 90's resources – be consisted throughout explanations of strategic choices have gain ground within strategic research and it is today one of the most dominant paradigms within research as well as in practice. (Wernerfelt, 1984; Prahalad & Hamel, 1990; Grant, 1991; Barney, 1991; Newbert, 2007).

A resource-based perspective means that there is a certain focus on resources owned by the company or by its partners; and the various resources (and capabilities) that can explain company performance and long term growth/ or decline/. A resource perspective aims to give a picture of company resources before and during *decision-making processes* in company and business strategies. It also aims to describe *potential need for changes* in company organization (in systems and structures) in order to be able *to implement* value creating business strategies. A resource-based perspective also has a certain focus on *management*, its /limited/ access to information and its capability to work efficiently and effectively with business strategy.

At the same time *management control* is regarded as dealing with the total operation of the company; the various stages or processes of the “value creation” of the company, and on various levels of the company. Various implications of a resource-based approach may be seen at the project management level, such as in R&D projects, and in total business management.

Management Control, or just “Control”, is defined as ‘formal, information-based routines; systems and structures that management uses to keep or change patterns in the various activities of the company’ (Simons, 2000), primarily those activities that support management decision processes and actions when implementing business strategy.

The aim of this paper is to visualize an integrated model for resource-based strategy and management control in a model, the EEM, and to discuss some implications when using this model as a framework for empirical studies. So far, research from emoirical studies have only described, to a minor extent how this resource-based perspective on company strategy and control explains the development of the company (Henri, 2006),, and to a lesser extent strategy versus control, in this respect, has been studied within an integrated theoretical and empirical framework.

For future research one might therefore describe the problem as a need for a “new” theoretical framework that can view a resource-based perspective on strategy *and* control from a total management point of view; all this in order to enable empirical studies of the various processes and parts of a “whole”, a “whole” that describes company development. The EEM-model seem to be a model that can visualize various parts of this “whole” and can be used as a valuable tool for analysis, reflections and also systematic self-assessment.

After a short introduction of the European Excellence Model (EEM) this manuscript discusses a) the resource-based strategy and its potential, theoretical implications from this perspective of strategy, of and on management control. Then the manuscript b) suggestsw a framework for empirical studies of the integration of strategy and control, a framework based

on this “European Excellence Model”. Finally the manuscript briefly c) mentions the EEM as a potential model for use in self assessment.

Based on this “non-descriptive” framework “the EFQM Excellence Model” ,or, more popular the “European Excellence Model (EEM)Note 1/or the “Business Excellence Model” (BEM)/ we briefly discuss the resource-based perspective on strategy and control as applied in various parts of the model.

Some empirical findings from a well known global company will be used as a reference to some diagnostic, as well as interactive, analysis and use of control systems, in implementing one resource-based strategy (innovation), as explored by Jean-Francois Henri (Henri, 2006)

In order to validate the use of the EEM model a limited empirical study was conducted in this global company. After this study the model was modified in order to make it possible to deepen the discourse in further empirical studies. This limited study was conducted in the companies *innovation and R& D processes*. The company chosen for this empirical study traditionally has a certain resource-based perspective on product strategies, ie on product development (effectiveness), product efficiency and process efficiency (both in R&D and related processes). *Product Development strategy* is therefore the basis of this resource-based, business strategy and therefore “high-lighted” in the model. (A market strategy with customer focus is also viewed in the original model) Some other exceptions from the original EEM, such as impact on organisational structure and on PDCA-related decision processes will also be mentioned from this “resource based” viewpoint.

The result of these empirical studies shows that the EEM model (though in a somewhat revised version) in a very interesting way, integrates a resource based strategy and management control processes in the face of company decision processes and shows how the company organises for create value and a sustainable competitive advantage. The model can therefore be used as a new framework for empirical studies of resource based strategy and management control.

### **The European Excellence Model**

According to the European Foundation for Quality Management (EFQM) their “excellence model” is a “non-prescriptive” framework that recognises there are many approaches to achieving “sustainable excellence” of a company.

“The EFQM Excellence Model”, here EEM, is described as a practical “toolbox” or a tool that can be used in a number of applications:

- As a structure for managing the company
- As a common base and language
- As a tool for self-assessment
- As a guide to identify areas for change/improvements
- As a form for effective benchmark with other companies

In this manuscript we will focus primarily on the first three characteristics.

We often associate this model and other models like this one with its potential to combine a number of ”enablers”, ie the company resources (and capabilities) with a certain number of indicators where financial results and value for prominent stakeholders are mirrored together. The EEM is more than that; it explicitly points to several *organisational dynamics* such as

processes for a) value creation and b) organizational learning and it implicitly points to c) reformulating policies and strategies.

The EEM in its basic version consists of nine different parts:

- **Company Management and managing the company** (Managements access)
- **Enabler (4):** Policy and Strategy ; Owners and partners Resources ; Employees ; Processes
- **Results (4):** Advantage for People, for Customers, for Society *and* Indicators of company performance

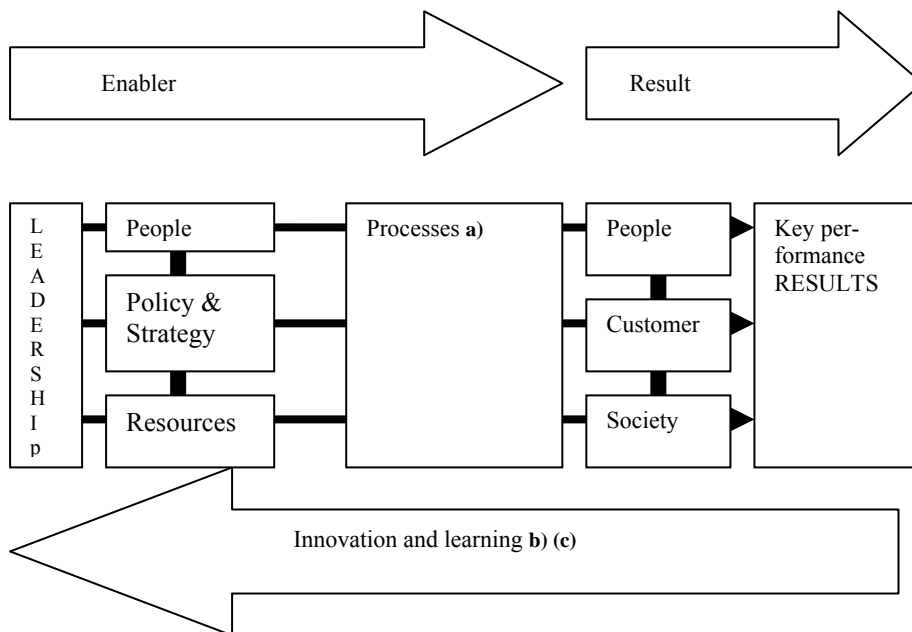


Fig 1 The European Excellence Model

## Theory

In this section we briefly discuss the resources-based approach on strategy (taken from pertinent theories) and its potential implications of and impact on Management Control, with an emphasis on distinguishing between *ex ante* and *ex post* conditions and high-lighting the need for a new empirical framework.

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A broad review of literature on resource based perspectives on strategy (Newbert,2007) indicates the need for deeper and further empirical research from theories that emerged from “theory of the growth of the Firm” (TGF) (Penrose 1959) and “The Resource Based View” (RBV) (Barney, 1991).

The resource based view on strategy is discussed, within the present resource discourse,, with certain focus on companies’ *capabilities*, rather than on the (static) *resources*, that lead to competitive advantages and their implications on company “rents” etc (Peteraf, Prahalad & Hamel etc).**Note 6**. Little is done to *empirically* demonstrate how resources and capabilities are related in strategy formulation. A general framework for strategy (re-) formulation, grounded on the the resource based view, as a model for empirical tests is suggested by Robert Grant (Grant, 2001)

Newbert (Newbert, 2007) also calls for further empirical support for resource based view on company strategy; implications from a resource (and capability) perspective on companies value creation and competitiveness through innovations, value processing, organising resources, control systems and compensation policies etc. Newbert here calls for a formal assessment of empirical support of contemporary extensions of the resource based perspective, rather than on early incarnations of TGF or RBV (see below).

#### Implications on strategy

The resource based perspective rests on two major theories; TGF; “The Theory of the Growth of the Firm”, (Penrose 1959) and RBV; “The Resource Based View” (Wernerfelt, 1985 and Barney, 1991). Compared to theories of market based strategies, these theories are seen as focusing internal strengths and weakness in organizational resources, showing how processes are managed and how the resources are allocated and deployed, all in order to obtain a sustainable or sustained competitive advantage. To obtain competitive advantage, resources have to be strategic and, according to Barney, valuable, rare, inimitable, immobile and in some contexts not even tradable. There are also *ex ante* and *ex post* conditions for competitive advantage (Peteraf, 1993); there should be a heterogeneous market; meaning no company can have or create the same resources or capabilities as another company. Rent is obtained through resource efficiency in processes and products and generated as Ricardian rents; i e limited supply or limited possibility to expand the resources gives a higher price. One *ex ante* condition, according to Peteraf (Peteraf 1993) is that management is *uncertain* of the resource situation in new markets or of the companys’ possible goodwill position (or that no information is available at all). The resource based perspective in a contemporary view should also include company elements such as structure, control system and compensation policies in order to fully ensure proper resource exploitation (Barney, 1997)

From s a contemporary viewpoint it is now also understood that firms have to demonstrate how to alter (in a dynamic way) the ingredients (resources and capabilities) in order to realize their full potential. An integrated model for resource based strategy (answering the questions of What? and How?) and a management control process (answering *ex ante* questions Why? For whom etc and *ex post* questions “What is the effect or result from the strategy ?) can therefore be viewed in a decision model like the PDCA-model. 1)

### Implications on Strategy and Management Control

Very little empirical research is conducted when it comes to *implications of and on Management Control* from a resource based strategy and especially when concerning the /obvious/ integration between strategy and control (systems). Jean-Francois Henri (Henri, 2006) shows, through an extended empiri how four *capabilities* ( ie innovativeness, market orientation, entrepreneurship and organizational learning) leading to strategies, are affected by *diagnostic* versus *interactive* use of a certain part of Management Control; the measurement system (PMS). No further empiri (and consequently no framework for empirical studies) about impact from (and of) resource based strategies, from the viewpoint of PMS or other control aspects, has been found in pertinent literature just yet.

This potential need for a new theoretical understanding accentuates the need of a model that can visualize the various parts of company development from a resource perspective. This has initiated an evaluation of a “new” framework for empirical studies. A certain “integrated” “processual” model for ‘strategy and control’ (in terms of *ex ante* and *ex post* control), based on the PDCA elements 1) (se below), has successfully been integrated into the EEM-model. Part of the model has been empirically tested and the model has been somewhat revised after that.

.With this somewhat revised, but still EEM-based developed model, we suggest a “new” model as a basis for development of a quite new framework for (resource-based) strategy as it integrates management control in a very interesting way. This /non-descriptive/ model as such points at, but does not though give any clear understanding of the dynamic events or emerging forces that develops the company. Those /time related dimensions/ are therefore viewed in connection with the description of the various analysed processes and settings and - with regard to this dimension of “time” – it is discussed as a potential improvement of the model.

#### PDCA 1)

##### The decision process

The PDCA-circle (Plan –Do-Check-Act) is described by Edward Deming (Deming 1995) and relates to various forms of decision matrices. In every stage of the PDCA circle one can define certain specific questions related to either the business *strategy* (The “What? and How?- questions) or to management *control* (The “Why? and For Whom? - questions). At a certain decision point, some questions are asked from both strategy and control viewpoint; the “Who?” and the “When? - questions.

1) PDCA refer to the Deming or Shewart activity cycle “Plan-Do-Check-Act” (Deming, 1995)

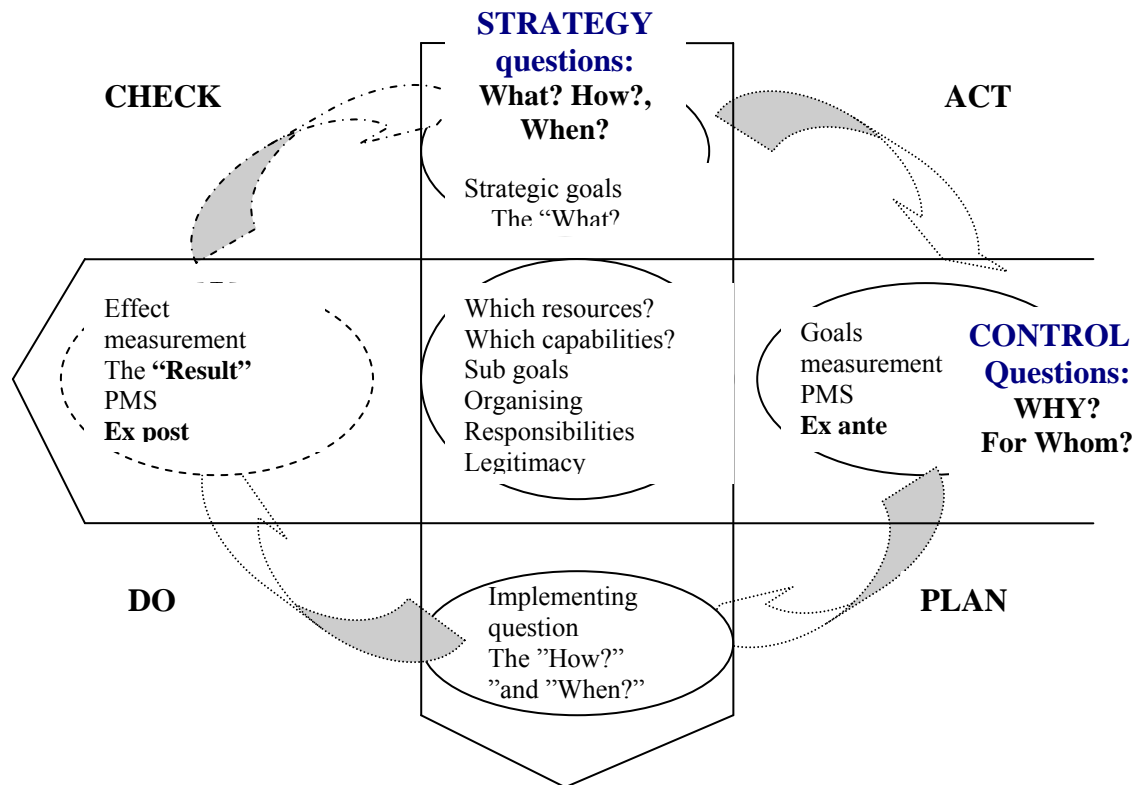


Fig 2 Strategy versus Control – an integrated model with reference to the PDCA-circle.

## A NEW FRAMEWORK

### A “new” research framework for integrated Resource-Based Strategy and Management Control - as emerging in three steps (a-c)

This manuscript discusses the need for a new framework for empirical studies, and the possibility to use the EEM in order to fill this need; potentially possible especially when looking into literature studies within a number of disciplines. The implication on and from EEM on *Management Control* has been studied from relevant management control literature (Anthony, 1965,1980; Merchant, 1985,; Merchant and Simons,1986; Simons, 1991,) and is described in a number of dimensions **Note 3)** by Su Mi Dahlgaard-Park (Dahlgaard-Park, 2007)

*Strategy is a key word in EEM.* One path in this development from the basic version of EEM is the perspective on strategy where the enablers primarily focus on company’s internal resources (read also partners resources) rather than on the external view of resources. Therefore the application of resource perspective on strategy has its references to TGF (Penrose 1959) and RBV (Barney, 1996, Hall, 1991, Prahalad and Hamel, 1990 et al). The external view of resources, with its reference to the theory of resource dependency (Pfeffer & Salancik et al, ) is the EEM exemplified with a stakeholder perspective as a complement to the model and with reference to stakeholder theory (Freeman, 1983, Frooman, 1999, Schmidt, 2000 a o) and theory of legitimacy **Note 4)** These two complements are further described in the so called Malaysian Excellence Model **Note 5)** and will not be further described here.

## A new Empirical Framework

From reviews of pertinent literature of the EEM vs Management Control, we here suggest a new framework for empirical studies of integrated strategy and control system, based on the “European Excellence Model” (EEM). Some elements (A-E)) in this model are described from pertinent theory (theory of TGF and RBV, respectively from Management Control literature; see below: Discussion and Conclusion) The decision process analysis (with reference to PDCA) which are integrated into the model is related to empirical studies of product development processes in a global company **Note 8)**

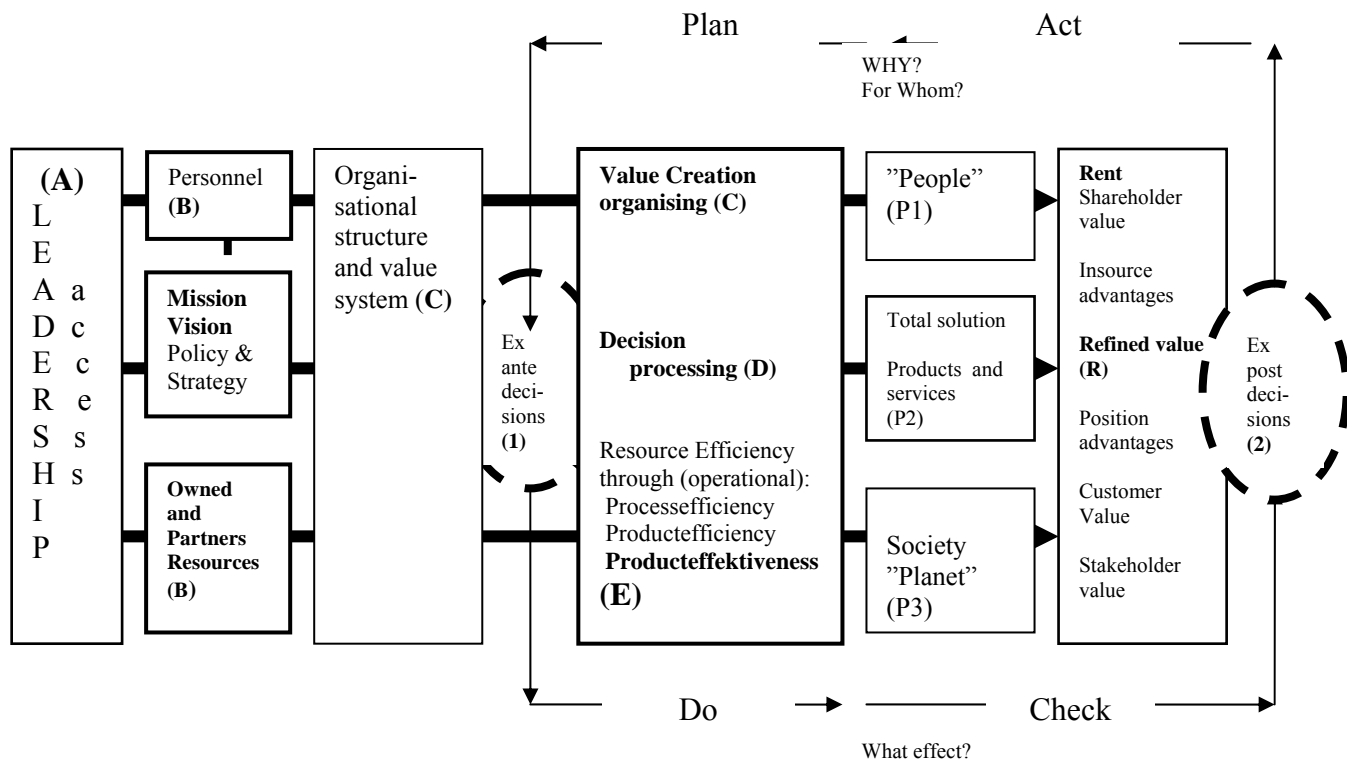


Fig.2 Revised EEM as an integrated research model for Resource-based Strategy and Management Control with a focus on R&D (Input control and Process control, Ex ante 1) and (Output and Result control, Ex post 2)

## DISCUSSION AND CONCLUSIONS

There is a need for a new, non-descriptive framework that can visualize how an integrated resource-based strategy and control is related to various parts of company performance. The EEM model visualizes different enablers, organisational-, decisionmaking- and operational processes and various stakeholder results. And this “revised” EEM model also integrates control aspects in two more or less time-related aspects; *ex ante* (diagnostic use) and *ex post* (interactive use) implementation.



The focus in control (by PMS) is on continuous assessment, both *ex ante* and *ex post*. In order to evaluate the impact of resources (and capabilities) from implementation of a certain business (innovation) strategy in those various parts of the model (a-e) and *to measure it*, especially on the (*ex post*) effects/results, it is necessary to put into operation certain *systemic factors* (such as resources) in order to use the model.

The EEM-model is non-descriptive and may only be used as visualizing areas for further, both theoretical and empirical studies. It therefore seems to be a potential framework for those studies where new theories will be tested and validated with empiri, but only if those systemic factors are operationalised. The EEM-model, or part of it, can then be used as a general framework; independent of contextual dependencies.

In trying to explore the impact on resource based strategy *from* control, five (six) main things (systemic factors or “enablers”) in the model have to be considered; (X1)

Ex ante; Management access (to trends etc)

Ex ante; goals and other settings (including environmental)

Ex ante; (PMS) calculations and budgets (diagnostic control), “scorecards”

Ex ante; organizational skills and preferences, responsibilities

Ex ante; most important resources (and other capabilities) and their interdependencies

(Ex ante; processes; especially decision processes and efficiency rates, strategic value creation processes)

In trying to explore the impact from resource based strategies *on* control, seven main things (value creation and result aspects, have to be considered (X2)

Ex post; organizational (management) changes

Ex post; informal processes (including “tacit” dimension)

Ex post; decision process (and unknown changes)

Ex post; (PMS) Refined value, TBL, “Rents”; resource efficiency (interactive control)

Ex post; supplier skills; business obligations

Ex post; innovation/production strategies

Ex post; stakeholder preferences (people, society, customers and partners etc)

### **Evaluation of EEM as used in self-assessment**

As a final conclusion we also discuss the revised EEM as a potential model for use in self assessment (c)

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The EEM model (and the various parts of it) may be used as a “chart” when performing a critical assessment in various process analysis; especially when conducting self assessment with a reversed process analysis. **See note 7 and 8**

**Note 1)** The Malcolm Baldrige Model (1988) was the basisw for the framework for US Quality Award. EEM was established in 1992

**Note 2)** Referring to the theories and context of the “triple bottom line” TBL of Elkington, 2000. “the three P’s (People, Profit and Planet” )

**Note 3)** The Dimensions in this, with reference to the EEM are; The Bureaucratic and Mechanic Control approach, The Cybernetic view of Control; The Agency view of Control; The Human Resource view of Control; The Contingency view of Control and The Cultural view of Control In this study the “enablers” in EEM are viewed in those six dimensions

**Note 4)** Legitimacy as analysing concept (Boström P S., 2005, working paper)

**Note 5)** Integrating resource-based view and stakeholder theory in developing the Malaysian excellence model: a conceptual framework. (Article in *The free library*)

**Note 6)** For further theory of Resource Based Approach; see also Boström; P S Licentiate thesis (draft) 2008

**Note 7)** See Conti: Self Assessment: XXX

**Note 8)** See: Critical Assessment of Process Analysis in R&D (Boström, P S., 2005, working paper)

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