

Professional Identity Statement

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This identity statement was prepared to inform Professor Coff's review for Promotion to Tenured Associate Professor at Emory University. Goizueta Business School limits this statement to five pages and allows no more than three articles to be sent to external reviewers.

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Before graduate school, I worked in a consulting firm valuing human assets purchased in corporate acquisitions. It was clear to me then that buyers faced great hurdles in navigating these treacherous transactions. In contrast, much of the strategy literature extols the benefits of such knowledge-based assets due to their promise as a source of competitive advantage. This presented a puzzling paradox: the very attributes that make human assets valuable strategic assets also pose serious managerial dilemmas due to asymmetric information, uncertainty, and ambiguous property rights. How do firms mitigate these dilemmas to achieve an advantage?

These challenges, which arise at the intersection of the resource-based view and agency theory, form the cornerstone of my work and the basis for my most heavily cited article, *Human assets and management dilemmas: Coping with hazards on the road to resource-based theory* (Coff, *Academy of Management Review*, 1997).

While I initially pursued this from the standpoint of strategic HRM and human capital theory, I have moved to competitive strategy where these problems are critical – a robust theory of competitive advantage must explain how firms cope with such challenges. I had completed my transition upon arriving at Emory in 1999 and my recent productivity reflects this shift.

I am drawn to these issues because they question prevailing wisdom about knowledge as a source of advantage. To study them, I draw on diverse methods including empirical, quasi-experimental, mathematical modeling, and conceptual theory development. I am energized by advancing theory as opposed to specializing in any given method or phenomenon. I outline below how my research, teaching, and service reflect my professional identity.

Research Contributions

Strategic management theory explores why some firms outperform others over time. Here, the resource-based view posits that an advantage may be sustained if rivals cannot acquire or imitate valuable resources and there are no close substitutes. Knowledge-based assets (e.g., human and social capital) are especially important since they may be hard to imitate or acquire. My work falls into two broad streams, rent generation and rent appropriation, that explore the paradox above. I classify how my publications and pipeline speak to each stream below.

Management Dilemmas in the Rent Generation Process

Much of the literature concerning the resource-based view focuses on rent generation – it has been dominated by questions such as, “What rare resources confer an advantage while remaining unavailable to rivals?” However, relatively little work examines how firms acquire strategic assets initially (e.g., strategic factor market theory) or how firms organize them into rent-generating capabilities. Accordingly, the first two strands of my work, described below, explore barriers to resource acquisition and to rent generation once assets have been acquired.

Acquiring human assets through M&A. Strategic assets are associated with uncertainty and asymmetric information that create hazardous factor markets and hinder investment decisions. The first problem arises as information asymmetries increase the risk that firms will either overpay or fail to procure resources in strategic factor markets.

My work on mergers and acquisitions (M&A) of knowledge-intensive targets explores dilemmas buyers face in such markets. Acquisitions are especially important because knowledge and capabilities are often bundled such that buyers must acquire entire firms in order to access unique capabilities. Transaction cost economics focuses on the need to bring such assets within a

firm's boundaries (e.g., own them) due to the prohibitive costs associated with gaining access through spot markets (opportunism, etc.). However, the literature on the theory of the firm does not generally explore the problems firms face as they attempt to internalize these transactions.

Accordingly, in my article, *How Buyers Cope with Uncertainty When Acquiring Firms in Knowledge-Intensive Industries: Caveat emptor* (Coff, Organization Science, 1999a), I studied how buyers deal with information asymmetries when bidding on knowledge intensive targets. Here, quality differentials are hard to observe and buyers face a real risk of overbidding. I found that, most buyers adjust by: 1) offering low bid premia; 2) offering stock-based consideration; and 3) seeking increased information (lengthy negotiations, etc.). Thus not only do buyers appear to perceive the risk associated with acquiring strategic assets, they take steps to mitigate this risk.

Interestingly, buyers with unrelated expertise did not apply these strategies. If they do not seek to integrate the target, they may have lower information needs – perhaps suggesting less risk of overbidding. In contrast, information asymmetries may put unrelated buyers more at risk but they are unaware of information they lack. I explored this further by looking at the likelihood of impasse in acquisitions (Coff, Journal of Management, 2002: Voted top article for 2002) – a topic largely ignored. I found that impasse is more likely when unrelated buyers try to acquire human-asset-intensive targets. This helps to untangle the paradox in my article above since unrelated buyers appear to suffer more from information asymmetries. They may be more likely to back out in the due diligence stage as they begin to understand the target better.

Resource acquisition hazards may also arise from managerial opportunism. Proponents of the knowledge-based theory of the firm (KBTF) suggest that transaction cost economics (TCE) has relatively less predictive power as knowledge-intensity grows. In the context of bidding wars, I found that managers in knowledge intensive targets exploit information asymmetries to help preferred bidders or to profit personally (Coff, Academy of Management Journal, 2003). Thus, contrary to the KBTF, this study finds that the risk of opportunism grows with knowledge intensity, suggesting greater explanatory power of TCE as knowledge-intensity increases.

In sum, my M&A research explores the hazards buyers face when acquiring targets with strategic assets. While there is a vast corporate strategy literature, my unique contribution is to build theory about the hazards that strategic resources pose in such transactions. This underscores the critical link between corporate strategy and strategic factor markets.

Strategic factor market theory and real options. In describing how firms acquire strategic resources for less than their value in use, Barney (Management Science, 1986) concluded that firms must either be lucky or have foresight about the value of the resource. Rich Makadok and I developed a model showing that foresight does not have an independent effect (Makadok & Coff, Under review at Management Science, 2004). That is, absent either luck or market power, rivals would be able to glean a bidder's foresight from observable behaviors and bid up the resource price – allowing the seller to capture the value. A buyer can only reap the gains from foresight if it enjoys: 1) unique complementarities (e.g., beneficial pre-existing heterogeneity) or 2) power to influence the market structure. We show that the first aspect is traceable to luck in some earlier period. The second runs afoul of efforts to develop the resource-based view independently of IO economics, which offers a rich theory of monopsony power.

As indicated, strategic factor markets operate under tremendous uncertainty. Absent such uncertainty, resource prices would be bid up to fully reflect their value. In this context, many suggest applying real options logic as a tool for investing under uncertainty. Only recently have

some begun to doubt the efficacy of this approach.¹ I have argued that the organizational form a real option takes (integrated or isolated) makes escalation one of many possible outcomes. When options are initially integrated, firms may be biased to exercise options that should be killed (e.g., 3M). In contrast, when options are isolated, firms may kill even promising options (e.g., Xerox PARC). Thus, an options heuristic may lead firms to buy many options that become locked in, or buy options that cannot be exercised. In a related experimental study, I measure the impact of social capital on exercise decisions (Coff, Sacks, & Laverty, Goizueta Business School Working Paper Series, 2004). Findings show that managers use social capital to secure continued funding, pushing decision-makers to escalate commitment even when it means eliminating more promising alternatives. This study also contributes by exploring potentially dysfunctional aspects of social capital in organizations – contrary to most treatments in the management literature.

Thus, my strategic factor market research reveals previously unexplored challenges to acquiring strategic assets and builds new theory about what is required to achieve a resource-based advantage. That is, a robust theory of competitive advantage must explain how firms acquire resources at prices that are below their ultimate value.

Organizing or managing human assets. Even if a firm is successful in acquiring strategic human assets, it may not be successful in generating rent. Coff (Academy of Management Review, 1997) examines management dilemmas associated with human assets. The resource-based view ascribes importance to these assets since firm specificity, social complexity, and causal ambiguity hinder imitation. However, these attributes also lead to challenges firms must overcome to realize an advantage. For example, information asymmetries create motivation/moral hazard problems as incentives fail under conditions of poor information. Similarly, information asymmetries hinder decision-making, suggesting a need to “empower” employees.

A forthcoming piece (Coff, Coff, & Eastvold, Academy of Management Review, 2005) also explores how the factors that make tacit knowledge inimitable, also hinder efforts to increase its scale without codifying – a process that makes the knowledge imitable. We argue that, counter to the thrust of the knowledge and technology literatures, firms can leverage scarce expertise without codifying or transferring knowledge. Furthermore, the approach increases specialization and generates tacit knowledge – enhancing the strategic properties of knowledge while scaling up. We illustrate this using vignettes in silicon wafer manufacturing and telemedicine.

The point underlying this stream of work is that, even if a firm has strategic assets, it will not realize an advantage unless it organizes those resources effectively and efficiently. As such I contribute by redirecting the literature from what resources have potential to yield an advantage to building theory about the dilemmas firms face in organizing resources to generate rent.

Human Assets and Rent Appropriation

All of the work above examined barriers to acquiring strategic assets and generating rent. However, even if the firm succeeds in acquiring and organizing its strategic assets, this does not mean that the rent will flow to shareholders and/or be evident in performance measures. My final stream of research was initially introduced in my article, *When Competitive Advantage Doesn't Lead to Profit: Resource-based theory and stakeholder bargaining power* (Coff, Organization Science, 1999b). Property rights to rent may be ambiguous especially if employees own the critical rent-producing human or social capital. This, in turn, may grant employees substantial

¹Adner & Levinthal (Academy of Management Review, 2004) argue that real options lead to escalation.

bargaining power. If they extract rent in the form of pay or the diversion of resources (e.g., empire building), it may not be evident in traditional performance measures. The ‘bottom line’ may be that much of the rent is appropriated before the bottom line is calculated.

This is important because much of the strategy literature implicitly presumes that rent will accrue to shareholders and therefore be apparent in measures of profitability. I contribute by treating rent appropriation as endogenous to theories of competitive advantage – bargaining power stems from the same factors that lead to rent generation. In other treatments, appropriability is considered but not directly linked to rent generation.

Maureen Blyler and I built on this theory by examining the specific context of a dynamic capability and the role of social capital both in generating rent and ultimately in determining who will appropriate it (Blyler & Coff, Strategic Management Journal, 2003). Here we argue that social capital is central to a firm’s ability to acquire, integrate, and ultimately even release resources. While this lies at the core of a dynamic capability, the same social ties may be used to determine who is in a position to reap the gains from such an advantage. Even in the context of causal ambiguity, we argue that social ties offer a basis from which individuals can make credible claims. This, coupled with a self-serving bias, assures that many will make credible claims on the rent diminishing any residual that may be left for shareholders.

Peggy Lee and I expanded on this topic empirically in the context of insider trading (Coff & Lee, Strategic Management Journal, 2003). Our analysis of 134,000 insider trading events demonstrated that insider trades have greater signal value for R&D intensive firms. It appears that investors assume managers exploit information asymmetries to appropriate rent. Indeed, they count on it to inform their investments.

Our follow up study (Ahuja, Coff, & Lee, Under review at Strategic Management Journal, 2004) takes this several steps further by relating trading to specific R&D breakthroughs. Here, we link patterns of insider trading to patent applications. In the period studied, applications only become public once patents were granted and a patent’s importance may take years to emerge. However, managers buy stock when preparing the application for breakthrough patents (e.g., a foundation for further innovation). Thus, the rent appropriation process begins years before the rent is actually generated and/or the breakthrough becomes public knowledge. In a related working paper, we argue that, under certain boundary conditions (sustained resource-based advantage, etc.), it may be in shareholders’ interests to promote insider trading as an efficient incentive mechanism (Coff & Lee, Under review at Strategic Management Journal, 2004).

This stream of research opens a new line of inquiry focusing on where rent from competitive advantages will accrue. Previous work offered only implicit assumptions about who would reap the gains. Overall, my research contributes to the theory of competitive advantage by exploring: 1) challenges associated with acquiring and investing in strategic assets, 2) management dilemmas arising from asymmetric information and uncertainty, and 3) how rents are distributed.

Future Research Directions

The theory of competitive advantage continues to treat the firm as a black box – lacking sufficient grounding in organizational theory and/or organizational behavior. Absent these links, the theory is limited in its ability to predict and understand the dynamics of competitive advantage. I plan to initiate a series of projects designed to provide this grounding and generate a robust theory of competitive advantage. For example, one of my current projects under way

explores why firms might voluntarily share information about technological breakthroughs. The extant strategy literature generally assumes that firms actively protect such information to prolong advantages. However, my study explores institutional and economic rationales for why firms may broadcast their breakthroughs. It also examines how opportunism and agency problems may encourage individual managers to reveal corporate secrets. In this way, the study explores how forces across levels of analysis influence the sustainability of an advantage.

Teaching Contributions

My focus on management dilemmas linked to strategic assets is especially useful in the classroom since I seek to connect theory and practice. My research is particularly helpful when teaching about resource acquisition, strategy implementation, corporate strategy and M&A. In addition, I supplement cases with experiential exercises to give students a hands-on feeling for how to apply theories. I have developed 7 cases and more than 6 experiential exercises. I freely share my materials and serve on the editorial board of the Journal of Strategic Management Education. A recent article there illustrates an exercise I developed to teach about first mover advantages (Coff & Hatfield, Journal of Strategic Management Education, 2003).

I have taught a wide variety of courses including core courses in strategy and organizational behavior and electives like industry & competitor analysis, corporate strategy, and M&A to audiences ranging from undergraduates to executives. Emory has high norms for teaching excellence (4.1/5). My most recent ratings for my evening section averaged 4.6 including a 4.8 for instructor-student interaction.

Service Contributions

My contributions to the profession include reviewing and involvement in professional organizations. I have served on the editorial boards of the Academy of Management Review, Academy of Management Journal, Organization Science, Strategic Organization, and the Journal of Strategic Management Education. I also do ad hoc reviewing for a variety of other journals. Second, I am highly active in the Academy of Management. I have recently been elected to serve in the executive leadership of the Business Policy and Strategy Division (BPS). This begins five years of service that includes Program Chair for the annual conference and culminates with the position of Division Chair. This division has 4,217 members and produces the largest portion of the program at the annual conference (about 600 paper submissions with a 33% acceptance rate).

My greatest service to Emory has been my participation on the Doctoral Studies Committee and serving as the PhD Coordinator for Organization & Management as we have brought our new program on line. I have, of course, served on numerous other committees including search committees, Executive MBA curriculum committee, and, on the University level, the Library Policy Committee and the Council on Information Resources and Technology (CIRT).

Conclusion

In my research, I have sought to identify gaps between theory development in the resource-based view and its application. I view such gaps as an opportunity to clarify theory and make it more robust. This focus also helps me to convey how to apply theory in a realistic context when teaching. My working papers extend the streams outlined above and, as discussed, I have many ideas for new projects that further elaborate this research.

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Makadok, R., & Coff, R. 2004. Strategic Factor Markets Revisited: The limits of foresight as a source of profitable new resource advantages. *Under review at Management Science*.

Journal Articles Attached

Please note that I have selected the following journal articles because they are reflective of the research stream I will be emphasizing as I move forward. I have excluded my most often cited article (Coff, Academy of Management Review, 1997) so that reviewers may focus on my more recent work. Most of my other articles and working papers are available at: www.bus.emory.edu/rcoff/Research.html. The following articles are attached:

Coff, R. 1999. When Competitive Advantage Doesn't Lead to Performance: Resource-based Theory and Stakeholder Bargaining Power. Organization Science, 10(2): 119-133.

Coff, R. 1999. How Buyers Cope with Uncertainty When Acquiring Firms in Knowledge-Intensive Industries: Caveat Emptor. Organization Science, 10(2): 144-161. Reprinted in International Mergers and Acquisitions: A reader, ed. Buckley and Ghauri, 2002.

Coff, R. 2003. Bidding Wars Over R&D Intensive Firms: Knowledge, opportunism and the market for corporate control. Academy of Management Journal, 46(1): 74-85.