

# **A CRITICAL EVALUATION OF THE RESOURCE BASED VIEW IN FAMILY BUSINESS APPRAISALS**

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## **ABSTRACT**

The resource-based view (RBV) of firms views the company as a collection of capabilities. While this view of a family business has a clear advantage in that it has a coherence and integrative role that places it well ahead of other mechanisms of appraisal the difficulty is selling this approach to lenders who traditionally prefer the traditional appraisal model with a heavy emphasis on accounting numbers.

Michael Porter's five forces model focuses on the company's external competitive environment, and dominates many business appraisals. Most of them do not attempt to look inside the company. In contrast, the resource-based perspective highlights the need for a fit between the external market context in which a company operates and its internal capabilities. This latter approach has much appeal to family business start-ups. The family usually comprises the investors/managers and this unity provides a possibly rich resource not found in conglomerates where portability of labor and skills prevail over the loyalty characteristic of family businesses.

The resource-based view suggests that the family business' grounding and its contribution to the firm's internal environment, in terms of its resources and capabilities, is more critical to the determination of success than the external environment. This paper examines the "hard sell" of this approach to financiers.