

Factor Market Failure and Movements in Product Space

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Abstract

This paper argues that factor market failure appears in two general forms. One is related to buying and accumulating resources, the other is related to selling or transferring resources between different uses and users. The former, which will be referred to as *the resource acquisition problem* is heavily emphasized in the resource based view, and its theorizing on intra-industry variations in profitability and the conditions necessary for sustainable competitive advantage. The latter, which is referred to as *the resource divestiture problem*, is emphasized in the IO treatment of entry barriers and inter-industry variations in profitability. In this paper we shall argue that both these traditions (IO and the RBV) seem unable to fully incorporate the type of factor market failure stressed by the other. Furthermore it is argued that a better theory of both entry barriers and sustainable competitive advantage results from taking both types of factor market failure seriously. And finally, we suggest that the two types of factor market failure may be seen as providing the building blocks of a more general theory of impediments to movements in product space.