

Edith Penrose

In Memoriam

Former Professor of Political Economy at INSEAD

Key Finding

The firm is a collection of productive resources that need to be through internal inducements and market pressures.

Business Application

A [firm](#) is more than an administrative unit; it is also a collection of productive resources the disposal of which between uses and over time is determined by administrative decisions.

Few women have had as distinguished a record as an economist as Edith Penrose. She was influential in the affairs of many countries and provided many new ideas on management. Following numerous academic appointments across the world, including Johns Hopkins and LSE, she spent seven years at INSEAD (1977–84), serving as Associate Dean of Research in her last two years.

Her best-known book, *The Theory of the Growth of the Firm* (1959), brought her instant recognition as a creative thinker and its importance to the analysis of the job of management has been increasingly realised. In theorising about companies that grow, Dr Penrose wrote, “There are important administrative restraints on the speed of the firm’s growth. Human resources required for the management of change are tied to the individual firm and so are internally scarce. Expansion requires the recruitment of more such resources. New recruits cannot become fully effective overnight. The growth process is, therefore, dynamically constrained.” Those insights had a major influence on the field of management, notably on strategy scholars, who examine the importance of strategic resources for firm performance, giving birth to what has become known as the resource-based view of the firm. Strategic resources are rare, difficult to duplicate, valuable and controlled by the firm; they include patents, brands and location.

Two aspects of the resource-based view are particularly important for business leaders. First, many resources are difficult to copy or replicate, which is the source of their competitive advantage. Second, businesses frequently need to reconfigure their resources, whether by obtaining new resources or by putting existing excess resources to new uses. Businesses must often obtain new resources to optimise existing operations and respond to changes in the competitive environment. They can also grow by using existing excess resources for new business applications. The central implication of this line of argument is that firms obtain advantages from valuable resources that are difficult to replicate but must change those resources if they want to maintain their advantages.

Capron and Mitchell (2012) identify three key modes for changing the resource base, either to obtain new resources or to put existing resources to new uses: buying, borrowing or acquiring resources. Businesses can make use of internal development or external exchange to change resources.

**Read more:**

- Penrose, E., (1959), *The Theory of the Growth of the Firm*, New York, John Wiley Sons.
- Capron, L., and Mitchell, W., (2012), *Build, Borrow or Buy: Solving the Growth Dilemma*, Harvard Business Press.
 - <https://www.independent.co.uk/news/people/obituaries-professor-edith-penrose-1359106.html>
 - <http://www.enlightenmenteconomics.com/blog/index.php/2017/12/no-ordinary-woman/>
 - https://en.wikipedia.org/wiki/Edith_Penrose