
AI GOVERNANCE CAPABILITY AS A STRATEGIC RESOURCE: HOW ORGANIZATIONS BUILD COMPETITIVE ADVANTAGE THROUGH RESPONSIBLE AI

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ABSTARCT

AI governance is frequently seen as a compliance burden for organisations. This paper challenges this perspective and suggests that governance is rather a capability for doing strategy. It is based on the resource-based view and the dynamic-capabilities perspective of the firm, defining AI governance capability as the capability used by a firm to create and apply AI responsibly, which is manifested in the routines, expertise and infrastructure the firm uses to achieve this. The paper presents four arguments supporting the proposition that the capability is valuable, rare, hard to imitate, and hard to substitute and demonstrates using the governance practices of leading firms. It also establishes clear boundaries – the benefit is most clearly seen in highly monitored settings, and diminishes the more good governance becomes the standard, and it may have a positive effect on large firms over small. The paper presents governance as strategic infrastructure that needs to be renewed, and proposes four propositions that can be tested empirically in future research.

KEYWORDS: AI Governance; Responsible AI; Resource-based View; Dynamic Capabilities; Competitive Advantage; Strategic Capability.

1. INTRODUCTION

The majority of managers continue to view the management of AI use and the concept of responsible use as a compliance cost, a defensive measure to comply with the law as opposed to a means to create value. This is becoming an increasingly difficult argument to uphold.

The EU AI Act entered into force in August 2024, and the regulations for general-purpose and high-risk systems will begin to apply in August 2026, with penalties of up to €15 million or 3% of global annual turnover (European Commission, 2025). Addressing governance as a 'legal risk' is not what the market is revealing. Responsible AI has been identified as a high priority to gain a competitive advantage by 46% of executives in PwC's survey (2024), and trustworthy AI is now a consideration for buyers when selecting a vendor (PwC, 2024). Additionally, the responsible-AI platform market will also grow from \$2.22 billion in 2024 to \$8.88 billion by 2029 (The Business Research Company, 2026).

There has been slow progress in the research of strategies to account for this change. The resource-based view connects advantage to a resource's value, rarity, inimitable, and non-substitutability (Barney, 1991), while the dynamic-capabilities view sheds light on the process of how firms renew their resources in fast-changing environments (Teece et al., 1997; Teece, 2007). AI governance is a mix of the two, but it is mostly regarded as a control function. This paper makes the following argument: AI governance capability, the processes, expertise, and systems a company employs to develop and apply AI responsibly, is itself a strategic asset. Companies that develop it transform the adoption of responsible AI into a sustainable competitive edge.

2. LITERATURE REVIEW AND THEORETICAL FRAMEWORK

This paper is based on two well-known strategy theories. The resource-based view (RBV) suggests that a firm can be successful if it has resources that are valuable, rare, inimitable, and not easily substituted (Barney, 1991). The dynamic-capabilities view is an extension of this, as it seeks to understand how a firm responds to and exploits changes and opportunities in rapidly evolving environments (Teece et al, 1997; Teece, 2007). Dynamic capabilities provide the reason why a resource is important, and RBV provides the reason why a firm holds the resource (Helfat & Peteraf, 2003).

These theories are also applicable to AI governance, but the literature has not fully utilised these theories in AI governance. While research on AI capability has been rapidly expanding and found to correlate with firm performance (Mikalef & Gupta, 2021; Samuel Fosso Wamba et al., 2024), AI is considered primarily as a technical or analytical tool. Typically, governance is always added as a control or compliance role, rather than considered separately as an advantage-enabling capability. The governance capability as defined is a set of practices that involves data flows, clarity of roles, human oversight and strategic positioning of AI

(Perifanis & Kitsios, 2023). What this work underplays is that, if difficult to copy, such routines may be sources of advantage in themselves, and when regulation is tightened, like the EU AI Act, governance becomes a prerequisite of the market.

A third perspective is institutional theory, which is used to explain the increase in this pressure. Regulatory pressure forces firms to conform to the regulatory environment; professional standards pressure firms to conform to established professional standards; mimetic pressure involves pressure to emulate successful and well-respected organizations (DiMaggio & Powell, 1983). These forces are driving the responsible use of AI to become a shared expectation, not a choice. For the argument, these pressures assume various legal forms from jurisdiction to jurisdiction. The European Union has adopted a comprehensive, binding AI Act, while the United States does not have any single federal statute for AI, but has state laws and voluntary federal frameworks (European Commission, 2025). One of these is the NIST AI Risk Management Framework, a voluntary standard, which some state legislation now recognizes as a ‘safe harbour’. (NIST, 2023) In the United Kingdom, AI is also regulated under existing sector regulators but not specific legislation (UK Government, 2023). Governance capability thus serves as a compliance differentiator in the US and UK, and becomes a compliance factor in the EU.

This paper thus distinguishes between two concepts which are frequently combined. The visible product is responsible AI, which equates to fair, transparent and accountable systems. It is the asset of AI governance capability that creates it. It is more difficult to observe and replicate, and is therefore more likely to be a source of advantage.

3. AI GOVERNANCE CAPABILITY AS A VRIN RESOURCE

AI governance capability needs to meet the four tests of a resource: value, rarity, inimitability, and non-substitutability (Barney, 1991). If one is considered, the other two should be seen to understand why the capability qualifies and why the other one does not.

Governance capability is a valuable resource because it assists a firm in both capturing opportunities and mitigating threats. It reduces regulatory and reputational risk, as well as facilitates trusted deployment. Mature governance is associated with faster and more reliable rollout of AI projects, as weak risk management is cited as a frequent cause of failure (Ryseff et al., 2024). It also enables access to regulated markets – consumers are more vigilant with the screening of suppliers when it comes to responsible-AI practice. Microsoft explains how it works: its Responsible AI Standard is input into a policy-to-tooling pipeline which translates policy requirements into the engineering process and prepares products for EU

rules (Microsoft, 2024). This gives rise to the first proposition, which is that AI governance capability is a positive association with competitive advantage due to the ability to side-step risk and deploy quicker, with greater trust.

Where few competitors possess it, a resource is rare, and their policy and capability do not match. Although several companies now have principles published about AI, not many can implement them. So, approximately 60% of companies surveyed in PwC's 2025 survey had moved to a strategic or embedded level of adoption, but only 20% of the less mature adopters said they were effective. (PwC, 2025) What is common is policy, but what is uncommon is routines to make it work. This leads to a second proposition: governance capability for AI is not widely found in mature organisations, as most of these organisations do not have policies for AI governance that are supported by routines within the organisation.

When a resource is constructed through an intertwined and non-linear progression of causalities, and a process is socially complex, it's path-dependent and can't be easily replicated, governance capability fits all three. Microsoft's Standard was produced over a number of years by cross-functional committees starting with its AETHER committee in 2017 and culminating in version 2 in 2022, with named controllers and enforcement mechanisms provided by Microsoft in 2024. Since 2018, IBM has had an AI Ethics Board that evaluates individual use cases throughout the business (IBM, 2024). A document without an owner is not a control, and may be copied by rivals, but not the history or relationships or judgement that lies behind it. This gives rise to a third proposition: that the capacity to govern AI is hard to imitate, as it is path-dependent, socially complex and causally ambiguous.

Lastly, a resource is not substitutable if there is no "easy" alternative that can be made to produce it. The market for governance software seems to promise one, but in fact it is a tool to facilitate judgement. IBM operates, but does not run, tooling like their Risk Atlas in parallel to board review of contested cases (IBM, 2024). The purchase of software does not provide a cross functional judgement, what difficult cases require. This leads to a fourth proposition: that AI governance capability is not easily replaceable by governance tools, as governance tools are there to support, not replace, embedded organisational judgement.

These four tests can imply the capacity can satisfy the resource-based conditions for advantage. This advantage, however, does not remain. The capability needs to be continually renewed by sensing, seizing and reconfiguring (Teece, 2007), and this dynamic capability can be a lasting, rather than a short-term, advantage.

4. DISCUSSION: BOUNDARY CONDITIONS AND IMPLICATIONS

The aforementioned argument should not be interpreted as a statement that governance always is beneficial. It is context-dependent and has a few restrictions. The benefit is more pronounced in high-risk applications where AI decisions have a significant impact and high supervision, such as finance, healthcare, and recruitment, where the EU AI Act classifies these as high-risk areas that would be subject to conformity assessment and registration (European Commission, 2024). If the stakes are not high or the regulations are lightly enforced, then buyers and regulators raise fewer questions, and the ability doesn't provide much of an advantage. This is because governance ability is valuable based on the degree to which a firm is examined.

A tighter limit is related to durability. With increased regulation, what used to make a firm stand out will become a prerequisite. Once everyone is expected to be well governed, it becomes rare, and the benefit diminishes to a minimum standard. This decay is most rapid under binding arrangements such as the EU AI Act, and slowest in jurisdictions like the U.S. and the U.K., where governance is still largely voluntary and the firms creating it still have not found a differentiator that is required by the mandate. This is why it is not enough to do a static resource-based reading. An advantage that lasts cannot be based on maintaining a stable set of routines, but must be based on continually developing the ability to outpace the ability of competitors and regulators to increase their bar (Teece, 2007).

Caution should be exercised with respect to distributional effects as well. Developing this capability requires funds, knowledge and time not necessarily available to smaller companies, which struggle with resource poverty while large companies like Microsoft and IBM have access to such resources (Welsh & White, 1981). Governance capability can, in fact, increase rather than reduce the gap between large and small organisations, and can turn into sluggish and defensive bureaucracies, which may actually slow organisations down rather than speed them up.

At the theoretical level, the paper is an extension of the resource-based and dynamic-capabilities perspectives to responsible AI and a rethinking of the concept of governance as an ability instead of a control. The practice lesson is not that more should be spent, but that governance should be developed as a strategic asset which can be renewed when and if conditions demand it, and which is aligned with a firm's regulatory risk.

5. CONCLUSION

This paper has argued that AI governance should be seen as a strategic capability, not an obligation. The routines, expertise and infrastructure that enable the production of responsible AI can be valuable, rare, hard to imitate, and difficult to replace, and firms that develop and master them can translate responsible practice into advantage. However, there are restrictions to this claim. This advantage exists primarily if there is high governance, as it diminishes if good governance becomes the standard across the market, and could be propped up by larger firms at the expense of smaller firms. So the contribution is really twofold. The paper develops two existing strategy frameworks for theory of responsible AI and redefines governance as a capability, not a control. In practice, it redefines governance as an infrastructure that can be replaced as needed based on the regulatory risk of the firm. At an argumentative level, its four theses still have to be put to the test and empirical studies in different sectors are now a clear priority.

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