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## Compositional Advantage and Strategy: Understanding How Resource-Poor Firms Survive and Thrive

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# Compositional Advantage and Strategy: Understanding How Resource-Poor Firms Survive and Thrive

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## Abstract

In this paper, I first critique the composition-based view of Yadong Luo and John Child for understanding how resource-poor firms survive and thrive. To remedy the deficiencies in their perspective, I then propose a dynamic theory of compositional advantage and strategy. Here, the compositional advantage is redefined as the attractiveness of the composition of the producer's offering in terms of scope and perceived value/price ratio. I identify five ways or basic compositional strategies to improve the value/price ratio. A firm may have an overall compositional strategy that is composed of some or all of the five basic compositional strategies. I argue there are three indispensable key success factors for a composition-based competition, i.e., aspiration (ambition-position asymmetry), attitude (being ALERT), and action (turning asymmetry into advantage). I also discuss the particular relevance of the present theory to understanding Chinese firms. I conclude with managerial implications and suggestions for future research.

**Keywords:** *composition, advantage, strategy, value/price ratio, key success factor, asymmetry*

## INTRODUCTION

‘What explains international success and failure of firms’ has been one of the fundamental questions for strategy scholarship (Rumelt, Schendel, & Teece, 1994; Schendel, 1991). While this question is concerned about firms in general and their success, a more challenging question is concerned about a particular type of firms that are lack of resources or with only ordinary resources, namely, how can resource-poor firms not only survive but also thrive in today’s global competition? The resource-based view of the firm (RBV) does not fit well with this phenomenon because of its emphasis on possession of valuable, rare, inimitable, and non-substitutable (VRIN) resources and capabilities (Barney, 1991). This question is not well understood (Burton, 2015) as the strategy literature has so far largely neglected, with Miller (2003) being a notable exception.

Recently, Luo and Child (2015) have, independent of Miller (2003), made an important contribution by proposing a composition-based view (CBV) of firm growth. According to Luo and Child (2015: 379), resource-poor firms ‘may generate extraordinary results through their creative use of open resources and unique integrating capabilities, resulting in an enhanced speed and a price-value ratio that are well suited to large numbers of mass market consumers’. However, as Burton (2015) and Volberda & Karali (2015) have commented, there are some deficiencies in the current theorization of the CBV, due to which, the full potential of the compositional perspective has not yet been tapped.

In response to Burton’s (2015: 415) comment that ‘There must be more to learn and understand about CBV if it is to realize the promise’, in this paper, I build on and redefine some elements of Luo and Child’s perspective in order to develop a dynamic theory of compositional advantage and strategy that explains the survival and success of resource-poor firms.

In what follows, I first critique the current formulation of the composition-based view. As the research gap that motivates my theorization, Luo and Child (2015) have left two fundamental questions not sufficiently addressed. One is that, while

many firms, being resource-poor and resource-rich, practice resource composition, why some but not others have succeeded? This is the question about the key success factors (KSFs) for a composition-based competition. The other is that why such a compositional explanation is particularly relevant for understanding the survival and success of resource-poor firms from China. To address these two questions, I propose a dynamic theory of compositional advantage and strategy. To do so, I first redefine the compositional advantage, then unpack the compositional strategy, and then explicate the three KSFs for a composition-based competition, i.e., aspiration (ambition-position asymmetry), attitude (being ALERT<sup>1</sup>), and action (turning asymmetry into advantage). In the discussion section, I address the particular relevance of the compositional perspective to understanding how Chinese resource-poor firms survive and thrive. I conclude the paper with managerial implications of this theory and suggestions for future research.

## **DEFICIENCIES OF THE COMPOSITION-BASED VIEW**

Albeit being an ‘exciting’ new perspective (Burton, 2015: 413), Luo and Child’s current formulation of composition-based view is not without problems (Burton, 2015; Volberda & Karali, 2015). Here, I identify three deficiencies, including unclear positioning of the CBV, an abstract notion of compositional capability, and self-imposed constraints on the CBV.

### **Unclear Positioning of the Composition-Based View**

There are two aspects of the unclear positioning deficiency. The first is that it is unclear whether the composition-based view is a new theory of the firm, firm growth or strategy. Although Burton (2015: 416) sees the CBV as a ‘new theory of the firm’ and Volberda & Karali (2015) also describe it as ‘the composition-based view of the firm’, it is actually not a theory of the firm (TOF) because a theory of

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<sup>1</sup> As will be explained later, the acronym of ALERT denotes five attitudes, i.e., being agile, eager to learn, entrepreneurial, keen on building relationship and network, or willing to work under tough conditions.

the firm must address the fundamental question of why the firm exists at all (Coase, 1937). While Luo and Child (2015) do not claim their CBV a theory of the firm, they do compare and contrast it with the resource-based view (RBV) and knowledge-based view (KBV), both of which have a TOF element. The TOF element of the RBV is Conner's (1991) resource-based theory of the firm as an alternative to the opportunism-based transaction cost theory (Williamson, 1975). The knowledge-based view was initially proposed as an alternative theory of the firm to the economic contract approach (Kogut & Zander, 1992).

Luo and Child label their perspective a composition-based view of firm growth; however, it is doubtful whether it is a new theory of firm growth. There is no reference to Penrose's (1959) classical theory of the growth of the firm in their analysis and reference. Surprisingly, the word of 'growth' is almost nonexistent in the references section except appearing in the titles of two industrial reports, i.e., IBM (2007) and KPMG (2012). No wonder why Volberda & Karali (2015:424) raised the question: 'is the compositional strategy a growth strategy, and if so, what is growth in this context?'

The second aspect of the unclear positioning deficiency is that it is unclear whether the CBV is a general theory for all resource-poor firms or a special theory for some of them from particular region, e.g., China. Luo and Child (2015: 379) choose the domain of their study the firms 'without the benefit of resource advantages, core technology, or market power'. They identify three groups of such firms including emerging economy enterprises (EEEs), small and medium-sized enterprises (SMEs) or latecomer businesses in advanced economies. However, their theorization is primarily based on emerging market and especially Chinese firms. Volberda & Karali (2015:423) wonder why Luo and Child have focused particularly on EEEs because they believe that 'a theory that is generalizable to almost every firm should not be introduced as a theory for a particular context. Rather, it should be introduced as a general theory that could later on be shown to be applicable particularly to certain specific contexts.'

To remedy this unclear positioning deficiency, I reposition the composition-based view as a theory of competitive advantage and strategy on the one hand, and as a general theory for resource-poor firms but most applicable to those from China on the other hand.

### **An Abstract Notion of Compositional Capability**

As aforementioned, one of the two fundamental questions Luo and Child have not sufficiently addressed is that, why have some but not other resource-poor firms succeeded in implementing composition-based strategy? In other words, what are the key success factors for such a composition-based competition? Luo and Child's (2015: 379) answer is that those successful firms, albeit being resource-poor, possess a superior compositional capability that over-compensates their resource disadvantage and 'differentiates them from better endowed competitors'.

According to Luo and Child (2015: 379-380, italics added), such superior compositional capabilities enable these firms to combine a set of ordinary resources available in the market for purchase 'in a way that is *creatively* and speedily adaptive to market requirements' and therefore firms with such compositional capabilities are 'savvy in *distinctively* composing ordinary resources, internal or external, in ways that create specific advantages and a unique developmental path for growth'.

The notion of compositional capability is central to Luo and Child's CBV. While it is common and fashionable to attribute firm success to some kind of superior organizational capability, such as absorptive capacity (Cohen & Levinthal, 1990), combinative capability (Kogut & Zander, 1992) dynamic capability (Teece, Pisano, & Shuen, 1997), and recombinant capability (Carnabuci & Operti, 2013), it is a risky solution for Luo and Child to heavily rely on an abstract notion of compositional capability for two reasons.

The first is that it may dilute the innovativeness of the composition-based view. Precisely, this is why Volberda & Karali (2015: 419) argue the compositional



capability should be seen as a type of organizational resource or a subset of dynamic capability and therefore the CBV is a special case of the RBV or dynamic capability view (DCV) and 'there is therefore no need for a CBV'.

The second reason is that relying on an abstract notion of compositional capability tends to divert attention away from examining the process and mechanism of how resource-poor firms survive and thrive, which is more complex and important than any abstract notion of capability can capture. Consequentially, the abstract notion of compositional capability may risk becoming a black box at best and even an empty notion without substance at worst. Preliminary evidence supporting the risk argument is the controversy around the notion of dynamic capability. Namely, despite two decades of efforts on explicating dynamic capability (e.g., Eisenhardt & Martin, 2000; Helfat & Peteraf, 2003; Teece, 2007; Winter, 2003), there is still a lack of consensus regarding dynamic capability. As a consequence, Arend & Bromiley (2009: 87) have argued that 'the DCV remain a label with an implied coherence it does not possess'.

To remedy this deficiency, I will forgo the notion of compositional capability without denying it serves some purpose, and instead, I choose to explicate the key success factors for a composition-based strategy.

### **Self-Imposed Constraints on the Composition-Based Strategy**

Luo and Child have paid insufficient attention to the evolution of compositional capability so that Volberda and Karali (2015: 424) raise the question of 'how important is time in this concept'. The time dimension is important because without it some critical questions will remain unanswered. For example, is the compositional capability a unitary or multifaceted phenomenon? Do the resource-poor firms possess such a compositional capability from the beginning? Does such a compositional capability change its content or/and form over time? Are there some compositional capabilities better than others in terms of quality or power?

Although Luo and Child (2015: 402) briefly touch upon the time issue by arguing ‘As a firm expands and diversifies, it becomes increasingly difficult to sustain a compositional approach’, such a constraint on the composition-based strategy is in my view self-imposed. Another self-imposed drawback of the composition-based strategy is what Luo and Child’s (2015: 401) state, ‘When other firms follow this model and are able to do the same, composition-based competitive advantages will dissipate or disappear’.

Luo and Child have overemphasized on ordinary and external resources in composition, temporary competitive advantage derived from composition, distinction between economic rent-generating capability and compositional capability. These emphases are in my view are not necessarily the prerequisites for building a compositional perspective, and therefore, the constraints and drawbacks, as cautioned by Luo and Child, of using the composition-based strategy are indeed self-imposed.

To remedy this deficiency, I will explicitly bring in the time dimension on the one hand, and forgo the notion of compositional capability on the other. These two choices necessitate my developing a dynamic theory of compositional advantage and strategy, which now I turn to.

## **A THEORY OF COMPOSITIONAL ADVANTAGE AND STRATEGY**

### **Redefining the Compositional Advantage**

The key insight of Luo and Child’s (2015: 380) perspective is that the resource-poor firms ‘achieve a compositional advantage, however, by creatively combining these elements to generate impressive speed and efficiency, and particularly to develop superior price-value ratios (i.e., higher value provided to customers per unit of price or cost).’

However, it is unclear from Luo and Child's argument what the essence of the compositional advantage is. Is it impressive speed and efficiency or superior price-value ratio or both? There are two unsettled issues in Luo and Child's argument.

The first is the paradox of impressive speed. For ordinary consumers, the producer's speed of new product development may not be a good thing for them because it means the products purchased now will soon become obsolete with the risk that the replacement components may soon be out of supply. However, for the industrial buyers, the producer's speed for both delivery and new product development is a very important factor in purchasing decision-making because fast delivery means reducing waiting costs and new innovative products available means they can upgrade their technologies in order to stay competitive. Compared to ordinary consumers, industrial buyers more afford to buy new products to replace the old ones because their long-term suppliers may give discounts on the replacement projects. So, while impressive speed may not be good for ordinary consumers, it is highly valued by industrial buyers. To avoid this paradox, I clearly distinguish impressive speed and superior price-value ratio as two separate sources of competitiveness while simultaneously unify them by the notion of compositional advantage. I redefine the compositional advantage as the attractiveness of the composition of the producer's offering, being product or service or both, which include two aspects of composition-based attractiveness. The first aspect is the composition of value and price, i.e., the price-value or value/price ratio<sup>2</sup>; the second is the composition of product offerings targeting different market segments. In this redefinition, the speed of new product development is connected to the possibility of a wide range of product offerings

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<sup>2</sup> There is a distinction between price and cost. The cost of an offering, being product or service or both, is all expenses that have actually incurred for making that offering available for customers to purchase, including materials, manufacturing, administration, marketing and delivery, etc., while the price of an offering can be strategically set taking into consideration of the actual cost as well as strategy for winning competition. While the value is customer's perception, the cost is producer's private information. So, one can only estimate a competitor's actual cost according to its price. For a company, it is easy to improve value/price ratio by strategically setting the price low without reducing the real cost or adding more value or both. But, for long-term success sake, any company needs to actually reduce its real cost or/and add more value. To avoid the complication, I use value/price ratio and value/cost ratio interchangeably here.

from which many potential customers can possibly find something matching their expectations.

In strategy literature, the value/price ratio as an analytical tool has been used by other scholars. For instance, D'Aveni (1994) uses the perceived quality/price ratio to explain how companies can outmanoeuvre competitors by improving the ratio. Bowman (1998: 21) also uses the notion of 'value for money' which is about the ratio of perceived use value over perceived price to explain the strategic choices of a firm. The value/price ratio is also a useful tool in many other contexts. For instance, Hardin (1982) emphasizes that the difficulties of collective action depend partly on the ratio of costs to benefits when analysing the *n*-person prisoner's dilemma; and Libecap (1989) comes to a similar conclusion that the ratio of benefits to costs determines the success of efficient property rights formation (both cited in North, 1990, p. 13).

The second deficiency in Luo and Child's notion of superior price-value ratio is that they have neglected the distinction between the quantitative and qualitative dimensions of the price-value ratio. In so doing, it is unclear what they mean by 'superior' price-value ratio. A ratio is a numeric value, which naturally implies it being quantitative in nature. However, there are diverse ways of achieving a same numeric level of price-value ratio. The question is whether the same numeric price-value ratios achieved by different ways are different in quality. In the present conceptualization of compositional advantage, their qualities are different, explained in more detail in the next section.

### **Unpacking the Compositional Strategy**

Conceptualizing a superior value/price ratio as the essence of the compositional advantage gives rise to an unavoidable question, namely, what is the relationship between the notion of compositional advantage/strategy and Porter's (1980, 1985) notion of generic competitive advantages/strategies?

With regard to generic advantage part of the question, my answer is that the notion of compositional advantage is more general or unifying than Porter's two generic competitive advantages, i.e., low cost and differentiation, because they can be seen as two particular representations of compositional advantage. Simply, both low cost and differentiation advantages can be understood as a particular form of superior value/price ratio.

There are five different ways to improve the value/price ratio and hence to gain a compositional advantage. (1) The first is to reduce cost, which enables a lower price, at the sacrifice of some level of quality or value of the producer's offering, compared to its previous offering or the competitors'. As long as the cost reduction is proportionally larger than the loss of perceived quality or value, the overall value/price ratio is improved. (2) The second is to reduce the cost while keeping quality or value constant or on a par with those of the competitors' offerings. (3) The third is to add more value with some level of higher cost incurred. As long as the value adding is proportionally larger than the extra cost incurred, the overall value/price ratio is improved. (4) The fourth is to add more value while keeping cost constant or on a par with those of the competitors' (indicated by competitors' prices). (5) The fifth is to simultaneously add more value while further reduce the cost<sup>3</sup>.

When it comes to generic strategies, Porter (1980) initially asserted that the cost leadership and differentiation strategies are incompatible and cannot be pursued simultaneously. Later Porter (1985: 18) conceded that 'reducing cost does not always involve a sacrifice in differentiation' and 'sometimes making an activity unique also simultaneously lowers cost' (ibid.: 129). Then, he made a compromise that 'sometimes a firm may be able to create two largely separate business units within the same corporate entity, each with a different generic strategy' (ibid.: 17). However, it was Porter's (1996: 77) belief that the two generic strategies are *largely* incompatible and that in order to contain the risk of the combination effort,

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<sup>3</sup> The idea of the five ways of improving value/cost ratio was originally presented in a conference paper written by the author in 2007. The Figure 1 is adapted from the original figure presented in the conference paper.

corporations have to create standalone business units, 'each with its own brand name and tailored activities'.

Porter's assertion arose many criticisms and some scholars have provided solutions to the possibility of combining the two generic strategies (e.g., Campbell-Hunt, 2000; Cronshaw, Davis, & Kay, 1994; D'Aveni, 1994; Hill, 1988; Markides & Charitou, 2004; Miller & Friesen, 1986; Mintzberg, 1988; Murray, 1988; Parnell, 1997; White, 1986). Probably, as a response to those criticisms, Porter (2001: 70) started to accommodate the combination argument by stating that the only way to achieve a sustainable competitive advantage is 'by operating at a lower cost, by commanding a premium price, or by doing both'. Yet, Thornhill and White (2007) have made a counterargument in favor of pure rather than hybrid/combinative strategy. Porter has recently once again stated, to achieve sustainable competitive advantage, 'a company must be able to differentiate itself and thus command a price premium, operate at a lower cost than its rivals, or both' (Porter & Heppelmann, 2014: 14). However, Porter has never explained how such a 'doing both' strategy can be done.

Li, Worm and Xie (2015) have identified several types of solution to the both/and question regarding the generic strategy debate. In agreement with Li et al.'s (2015) typology, the present theory of compositional strategy tackles the both/and challenge by adopting the dimensionalization and selective integration approaches. The dimensionalization approach here is to divide the concepts of cost and differentiation into multiple sub-elements. Mintzberg (1988) dimensionalizes the concept of differentiation into several types, namely, differentiation by marketing image, product design, quality, support, and undifferentiation. Likewise, I dimensionalize the concept of cost into different elements, e.g., material cost, labor cost, functionality cost<sup>4</sup>, marketing cost, and administrative cost, etc. The selective integration approach here means that, a compositional strategy can simultaneously attend to both cost/price and differentiation/value considerations by

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<sup>4</sup> For many products, such as consumer electronics, there are many functions or features that can be added or removed. To cut cost, some unnecessary functions can be removed (see Kim & Mauborgne, 2005).

selectively integrating their respective sub-elements with the aim of achieving a compositional advantage measured by a higher value/price ratio compared to the focal firm's previous offering or/and its rivals'.

With this compositional solution in mind, it is easy to relate the five ways to improve value/price ratio, which can be called five basic compositional strategies, to Porter's two generic strategies. In Figure 1, there are four square-shape cells. I label them cost reduction, transition, differentiation, and combination, respectively. Except transition, the other three can be seen as three generic strategies, in consistence with Porter latest thinking.

The four square-shape cells are further divided into two triangle sub-cells. I label six of all eight sub-cells by a number with the other two labelled with '?' marks. These numbers denote the five basic compositional strategies aforementioned. The number '0' implies a starting point, namely, some new firms, being resource-poor or -rich, may desire to achieve a combination of low cost and differentiation advantages, however, they may soon realize it is very difficult, if not completely impossible, to start with such an ambitious strategy. For resource-poor firms, the most viable strategy in pursuit of survival is the aforementioned first strategy, i.e., to reduce cost, which enables a lower price, at the sacrifice of some level of quality or value of the producer's offering. As long as a higher value/price ratio is achieved, it is a viable strategy. A firm adopting this first strategy is labelled here a cost leader. Inspired by Porter (1980) and Miles and Snow (1978), I label the firms adopting the other four compositional strategies as cost defender, distinctior, differentiator, and combinator.

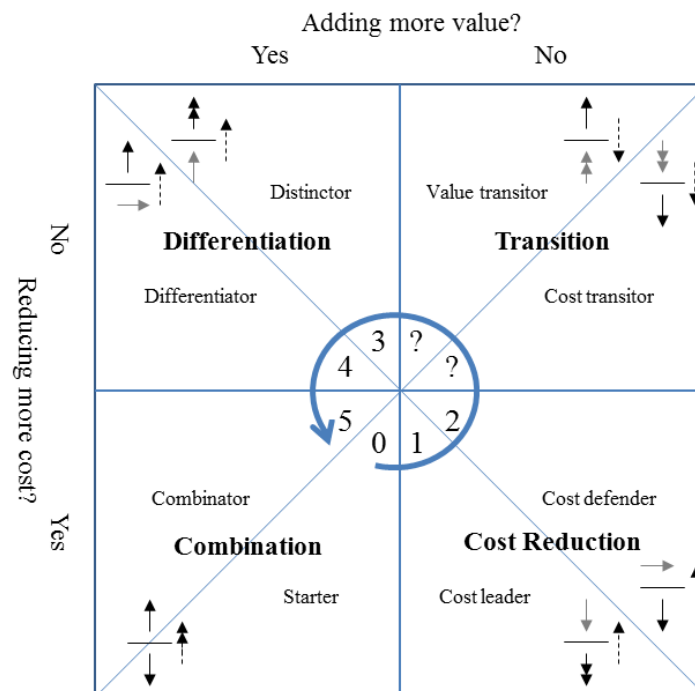
The bold open circle or spiral arrow in Figure 1 denotes there is an ascending order along the arrow in terms of the qualitative value of the value/price ratio these five basic compositional strategies can generate even if their respective ratios have a same numeric value. Accordingly, the present theory of compositional strategy describes and prescribes a strategic development path for resource-poor firms to follow. Namely, although all of the five compositional strategies are viable

in generating superior value/price ratio, they are qualitatively different; while it is easier or more natural for resource-poor firms to start with cost reduction strategy in general and cost leadership in particular, these firms need to transit from cost reduction to differentiation and ultimately to combination, if they want to not only survive but also thrive.

The transition cell denotes the situation where the effort to further reduce cost may cause a higher proportion of loss of perceived quality or value and therefore decrease the value/price ratio; or the effort to add more value will incur higher proportion of extra cost incurred therefore decrease the value/price ratio.

Transition has some resemblance to Porter's (1980) notion of 'struck in the middle' and Miles and Snow's (1978) notion of 'reactor', yet, transition in the present theory of compositional strategy can also be a transitional phase between cost reduction strategy and differentiation strategy, meaning, the transiting firm may not be stuck in the middle for ever but ultimately move up to the next level.

**Figure 1. Five compositional strategies to improve value/cost ratio**





Notes: (1) The dark color arrows indicate whether the primary focus is on reducing more cost or adding more value; while the gray color ones indicate they are secondary focus. (2) The double arrows indicate a higher percentage of change compared to a single arrow. (3) The horizontal arrow indicates no change or being on a par with the rival offerings. (4) The up arrow indicates an increase while the down arrow a decrease. (5) The dash line arrows indicate whether the resulted value/cost ratio is higher or lower than before. (6) The bold open circle or spiral arrow indicates an ascending order along the arrow in terms of qualitative value of the same numeric value/price ratio.

The present theory of compositional strategy is also different from Bowman's (1998, 2003) 'strategy clock' model, albeit some resemblance. Bowman argues that there are many different directions a firm can *deliberately* choose to either compete on price or add perceived use value, or do both simultaneously. In contrast, I describe and prescribe a sequential strategic development path along which a resource-poor firm may likely go through over time.

A new addition to Luo and Child's (2015) composition-based view here is that, based on my aforementioned redefinition of compositional advantage that has two meanings, I posit, there is a second meaning of 'compositional' in the present theory of compositional strategy, namely, the above analysed five compositional strategies are in fact basic or *elementary* strategies, and therefore, companies can selectively combine some or all of these five basic compositional strategies to form their overall compositional strategy. The rationale for this overall composition is that there are different market segments, each of which has different needs and wants. Consequently, there is no 'one size for all' strategy, and therefore, in order to appeal to customers in different market segments companies can or should selectively combine some or all of the five basic compositional strategies. In practice, companies such as L'Oreal, Nestle, General Motors and Alibaba own

different brands and adopt different compositional strategies for different market segments.

This double meaning of compositional advantage and strategy resolves a widely-critiqued asymmetry between Porter's (1980, 1985) two generic competitive advantages, i.e., low cost and differentiation, and three generic strategies, i.e., cost leadership, differentiation, and focus. It has long been pointed out (e.g., Mathur, 1988; Mintzberg, 1988), the focus strategy is about the choice of width of targeted market segment while cost leadership and differentiation are choices of generic strategies made after the market segment is chosen. Therefore, the focus strategy is not a generic strategy. Indeed, except the focus item, the other two generic strategies correspond on a one-to-one basis to the two generic competitive advantages. By redefining the notion of compositional advantage to have two meanings, one about the scope of product offerings and the other the value/price ratio of each offering, I have made possible that the notion of compositional strategy also has two meanings, one being the scope of the overall composition strategy and the other the five basic or elementary compositional strategies. In this way, the redefined notions of compositional advantage and compositional strategy correspond to each other on a one-to-one basis.

It is worth noting the present theory sees a wide scope of product offering a compositional advantage, which contradicts Porter's (1980) prescription of a focus strategy as a generic strategy. The wide scope of offering argument can even further extended to the choice of scope of industries, i.e., scope of diversification. While Western strategy literature, after Rumelt's (1974) study on diversification, in general does not favour unrelated diversification, business groups or conglomerates who invest in multiple unrelated industries are still very common in emerging markets. Khanna and Palepu (1997), adopting an institutional perspective, have analyzed why focused strategies may be wrong for emerging markets. The present theory of compositional strategy may shed some extra light on this contrast.

## **Key Success Factors for a Composition-Based Competition**

Resource-poor firms have a disadvantage in resource endowment compared to resource-rich firms. We can call this disadvantage the resource asymmetry, namely, the focal firm and its rivals are in an asymmetric relationship in terms of possession of resources or capabilities. This resource asymmetry is common for new ventures in general and those from emerging markets or developing economies in particular. To survive, the resource-poor firms must develop some kinds of competitive advantage to compensate their resource asymmetry disadvantage.

Understanding above analyzed compositional advantage helps resource-poor firms realize that there are many ways of building such compensating advantages. For instance, to improve the value/cost ratio of the product/service offering, the resource-poor firms can choose the aforementioned first basic compositional strategy, i.e., ruthlessly reducing costs at the sacrifice of some level of quality or value. They can concentrate their efforts on some sub-elements of cost, such as material and functionality costs. As long as the overall value/price ratio is superior to some competitors', this strategy gives the focal firm a competitive advantage to compensate its resource asymmetry disadvantage. In this way, the focal firm can attract some customers and therefore survive. The resource-poor firms can also build a compensating advantage of a wide scope of product/service offering. They can selectively combine different sub-elements of cost and differentiation in order to offer various products/services that have various compositions of value and cost elements. These various product/service offerings help the focal firm meet the needs and wants of different market segments, more than a standard offering of a competitor can.

Yet, understanding compositional advantage and adopting a compositional strategy do not guarantee survival and success of the resource-poor firm because other firms may have understood and adopted the same logic. So, a question that

arises immediately is what enables the resource-poor firms to survive and thrive in a composition-based competition.

Addressing this challenging question, Miller (2003:964) proposes an asymmetry-based view of advantage (ABV). Miller defines asymmetry as 'skills, process, talents, or outputs an organization possesses or produces' that are not clearly valuable or even troublesome but potentially valuable if creatively used. Such asymmetries initially appear to be weakness rather than strength. According to Miller, if asymmetries are creatively discovered, utilized and transformed, many firms may start with little and end up with a lot. Miller's insight is echoed by Luo and Child (2015), albeit without referring to it.

While asymmetry in Miller's ABV is primarily about organizational resource and capability, I expand the notion of asymmetry to include more meanings. The rationale for this expansion is that in order for resource-poor firms to survive and thrive, there must be something to compensate or overcome this initial resource asymmetry disadvantage. This 'something' may be aspiration-, attitude-, or effort-related, or all of them. Accordingly, I redefine the notion of asymmetry to include three aspects. The first is the ambition-position asymmetry, meaning the firm has set an ambition higher than its current position. The second is the attitude asymmetry toward competition between the firm and its rivals. The third is the potential advantage-deriving asymmetry, i.e., Miller's concept of asymmetry.

These three types of asymmetry are in turn linked to three key success factors for a composition-based competition or an asymmetry-based strategy (see Figure 2), i.e., aspiration (ambition-position asymmetry), attitude (being asymmetrically more ALERT), and action (turning asymmetry into advantage).

First, the resource-poor firm must aspire to survive and thrive, namely, it must have a higher ambition than its current position in the competition. The gap or asymmetry between its ambition and position serves as a motivation or healthy tension to ameliorate its situation. The asymmetry can be set large or small. In general, the larger the asymmetry is set, the higher the motivation is generated for

the firm. Some firms set very large asymmetries, a situation called stretch goal setting that stretches employees' abilities to new levels (Thompson, Hochwarter, & Mathys, 1997). Some Japanese firms have been able to capitalize on such a strategic intent and become successful internationally (Hamel & Prahalad, 2005). However, too large an ambition-position asymmetry may turn out to be the source of frustration when the firm fails to achieve its ambition for extended period of time.

Therefore, it is important to be pragmatic when it comes to ambition or goal setting. Pragmatism here means incrementalism or gradualism. Namely, a resource-poor firm may set a moderate asymmetry at the early stage of its development and incrementally adjust it until it has accumulated sufficient resources, capabilities and confidence; and by then, it can make a leap in setting its level of aspiration (Lewin et al., 1944).

Second, the resource-poor firm must have a pragmatic and positive attitude toward competition. It must be *agile*, eager to *learn*, *entrepreneurial*, keen on building *relationship* and network, or willing to work under *tough* conditions, or all of them (ALERT for short hereafter)<sup>5</sup>. Being more ALERT than its competitors, a reverse asymmetry, gives the resource-poor firms an attitude advantage that to some degree compensates its initial resource asymmetry disadvantage.

Resource-rich firms may be more bureaucratic and less agile or flexible. They may be too inert to learn or inclined to exploitative rather than explorative learning (March, 1991). They may be less entrepreneurial due to their mature business models. They may care less about the needs and wants of customers because of the latter's weak bargaining power. Their employees may not be willing to work under tough conditions, such as working in harsh environment, staying far away from family, or working overtime for an extended period, simply because the formal regulations and social norm of work-life balance do not support such work

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<sup>5</sup> The author gratefully acknowledges the comments on the ALERT idea made by Jens Gammelgaard of Copenhagen Business School, Denmark and Judith Zhu of University of Newcastle, Australia.

practices. All these attitude asymmetries provide a golden opportunity for resource-poor firms to survive as long as they can take advantage of them.

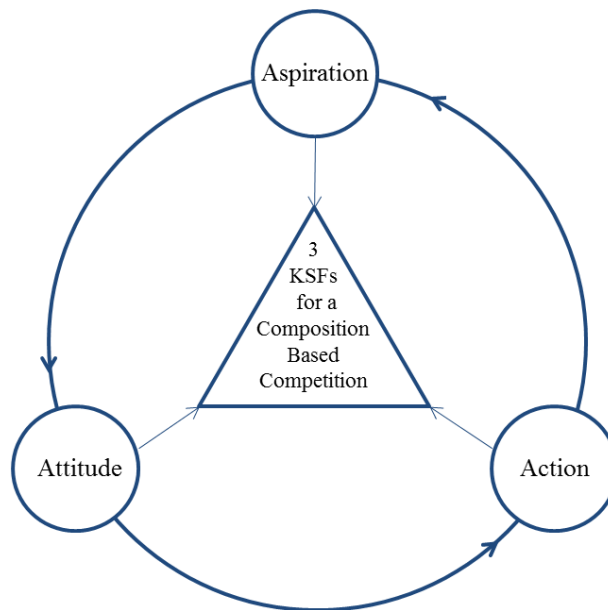
Third, to survive and thrive, the resource-poor firms, besides having the attitude asymmetry advantage, must put continuous efforts to turn the resource and attitude asymmetries into compositional advantage. Miller (2003) identifies four ways of discovering advantage-generating asymmetries, including, experimenting, reconceptualizing non-productive assets, paradox of weakness, and building on budding capabilities. Creating asymmetry-based initial advantage as described by Miller helps the resource-poor firm to gain a foothold in the market and therefore survive the competition.

To thrive, the survived firm must continuously upgrade its compositional advantage to a higher level. To do so, the firm has to continuously investing in resource and capability accumulation. This is because, a higher level of aspiration sometimes necessitates an even higher level of possession of resources and capabilities; and a firm may need to build some organizational slack for innovation or in preparation for emerging opportunities (Cyert & March, 1963; Nohria & Gulati, 1996). Also, the firm has to promptly adapt to the changing internal and external environment. The external environment may become different soon as the firm survives because in the past it is the firm's own struggle for survival without much recognition made and attention paid by the incumbents but now since it has survived it starts to be seen as a potential threat by more competitors. The survived firm has to adapt to such change in the external competitive environment. Internally, with its survival, the firm now starts to accumulate more resources such as employees and capabilities. It has to adapt its organizational structure, routines and human resource management, etc. The more the firm grow, the more challenges, internal and external, the firm will face, which demands more reactive or proactive efforts.

These three KSFs are indispensable for a composition-based competition. High aspiration provides the motivation for not only survival but also catching-up and

even leapfrogging the resource-rich rivals. However, having a high aspiration is not enough; to survive, the resource-poor firm must be more ALERT, an attitude asymmetry that gives it a competitive edge. To catch-up or even to leapfrog its resource-rich rivals, the survived firm must continuously upgrade its compositional advantage in order to adapt to new environment, external and internal. Over time, the firm evolves and may no longer be resource-poor. The growth of the firm may in turn impact on the firm's aspiration for the future. With more resources and capabilities, the firm may gain more confidence and therefore raise its aspiration. To realize the new aspiration, the firm has to be more ALEART in attitude and continuously act to meet new challenges ahead. Therefore, the cycle of aspiration-attitude-action continues.

**Figure 2. Three key success factors for a composition-based competition**



## **DISCUSSION AND CONCLUSION**

### **Particular Relevance to Chinese Firms**

In forming the composition-based view, Luo and Child (2015) was originally motivated to investigate the unique competitive and growth strategies of Chinese privately owned firms that compete domestically, regionally, and globally. Their analysis is largely based on the Chinese cases although the CBV can be applied to many other firms including SMEs from advanced countries. This gives rise to Volberda & Karali's (2015) critique that the CBV should be positioned as a general theory with particular application to certain specific contexts. In response to Volberda & Karali's suggestion, I have above proposed a general theory of compositional advantage and strategy that may have particular relevance to Chinese firms.

From the cases analyzed by Luo and Child (2015), we can see the present theory is particularly applicable to Chinese firms as many today's successful Chinese companies, such as Huawei, Alibaba, Lenovo, Haier, Sany, Galanz, Wanxiang, BYD, CIMC, Pearl River Piano, and HiSense (Luo & Child, 2015; Williamson & Zeng, 2009; Zeng & Williamson, 2007), were once resource-poor firms, yet they have managed to survive and thrive precisely on the basis of superior value/cost ratio and composition of product/service offerings that satisfy needs and wants of different market segments.

A close examination of this group of Chinese firms reveals that they all have embraced the three key success factors. Namely, they are extremely aspirational. Most of them had the stretch goal of becoming a Global 500 company in their early stage of internationalization. They are extremely ALERT even if they have reached a very high level of achievement. They give skill and advantage upgrading a high priority. No wonder why there have emerged quite many Chinese multinationals aggressively investing in global market. Many of Chinese outward foreign direct investment are strategy-asset seeking (Dunning, 1998). So, the question is what



explains Chinese firms' active and proactive pursuit of such a composition-based competition. I posit, there are at least a cultural reason and a psychological one.

Culturally, Chinese have a make-do mentality. There is an idiom of turning the rotten into the magic (化腐朽为神奇), which precisely corresponds to the CBV that is about creatively combining ordinary resources to get superior performance. Chinese often say that three shoe repairers with their wits combined equal Zhuge Liang, a master mind (三个臭皮匠顶个诸葛亮). There are many other sayings and teaching that correspond to some essential ideas of the compositional perspective. For instance, a Confucian teaching is that every man has a share of responsibility for the fate of his country (天下兴亡匹夫有责), which can be linked to the aspiration factor. Chinese believe that poverty gives rise to a desire for change (穷则思变), which can be linked to the ALERT attitude. Another saying is that when sailing against the current not to advance is to go back (逆水行舟不进则退), which can be linked to the imperative of upgrading or advancement.

Of course, other countries may also have equivalent idioms and sayings like the Chinese ones. So culture alone cannot provide a full answer to the aforementioned question. A psychological reason complements the cultural one. Chinese people in general have a 'victim mentality' due to the government's 'persistent emphasis on China's "150 years of shame and humiliation" as the main lens through which Chinese view their place in modern international affairs' (Medeiros & Fravel, 2003: 32). As a result of such a victim mentality, many aspirational entrepreneurs have voluntarily shouldered the responsibility of reviving China through industrial development. Many companies, large or small, have had a dream of becoming a Global 500 firm. In addition, the past three and half decades of opening and reform have fashioned Deng Xiaoping's philosophy of pragmatism and gradualism and his notion of 'to get rich is glorious'. The pragmatism enables Chinese resource-poor firms to make do with what they have at hand. The gradualism reminds Chinese entrepreneurs to adopt a step by step

plan in pursuit of their aspirations. The notion of getting rich is glorious helps release Chinese entrepreneurial spirit.

### **Managerial Implications**

The implication of the present theory for resource-poor firms in general and those from emerging markets in particular are that, they should not have a sense of inferiority and give up on themselves. Instead, they should have a high aspiration yet be down to the earth, adopt an ALERT attitude toward competition, and proactively make efforts to continuously upgrade their resources, capabilities and compositional advantages. To be pragmatic, they may start with competing at the bottom of the pyramid (BOP) (Prahalad, 2006), while gradually move upward to the middle and top of the pyramid. This is not to deny the possibility of an accelerated pace of growth, which can be done by aggressive merger and acquisition (M&A). However, resource-poor firms should be aware of the high risk in M&A and especially cross-border M&A.

The implications of the present theory for advanced country firms in general and large MNEs in particular are that, they should not look down the resource-poor firms from developing countries simply because of their current low positions. They should not ignore the BOP where many hidden opportunities exist. They should also pay attention to those emerging challengers from emerging markets because they may be extremely ALERT. The successful firms should critically examine their internal organizations to make sure they are not to become too bureaucratic and inert.

### **Suggestions for Future Research**

The ideas presented in this paper are largely conceptual or theoretical. There is a need of empirical studies in the future to verify or/and enrich the theory. For example, we can examine whether the strategic development path described or prescribed has been followed by resource-poor firms, under what conditions these firms switch from one stage to the next stage, whether these firms do combine

several basic compositional strategies in their overall compositional strategies, the factors that influence their aspiration levels or goal setting decisions, and different approaches to skill and advantage upgrading.

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