

## Reframing the Compositional Capability: A Resource-Based View on ‘A Composition-Based View of Firm Growth’

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### INTRODUCTION

This commentary targets the core ideas of the composition-based view (CBV). First, we argue that the deployment of compositional capabilities (CCs) to combine ordinary resources fits the resource-based view (RBV) and that there is therefore no need for a CBV. Second, we argue that the CCs should be presented as a specific type of dynamic capability (DC). We show that even where ordinary resources are being combined, superior combinatory capabilities are needed as competitive advantage cannot otherwise be achieved. Third, we argue that Luo and Child (2015) focused too much on the emerging economy enterprises (EEEs) as the conceptual setting. We conclude with a future research agenda to prepare the ground for research on compositional capabilities within the composition-based view of the firm.

Luo and Child (2015) present the composition-based view (CBV) as a unique way in which enterprises can grow even when they are handicapped by a ‘lack of core competencies’ (379) and ‘without the benefit of resource advantages, core technology or market power’ (379). We are grateful for the effort of these scholars to explicate once again that the way in which strategic management is practiced across contexts may be different. Specifically, they point out that some organizations, in their desire to achieve competitive advantage, may prefer the deployment of compositional capabilities (CCs) to combine ordinary resources over the pursuit of valuable, rare, inimitable, and non-substitutable resources, as advocated by the resource-based view (RBV) (e.g., Barney, 1991). This commentary targets the core ideas of the CBV. Firstly, we argue that the deployment of CCs to combine ordinary resources fits the RBV and that there is therefore no need for a CBV. Highly skilled managers, routines, and capabilities are seen as resources within the RBV (e.g., Barney, 2001; Mahoney & Pandian, 1992; Peteraf, 1993; Priem &

Butler, 2001; Volberda, 1996; Wernerfelt, 1984). Contrary to what Luo and Child (2015) argue, this implies that to achieve competitive advantage by combining ordinary resources, unique managers and/or unique CCs are needed, and thus unique resources. Improvisation in its turn rests on the heuristics used by these managers (e.g., Bingham & Eisenhardt, 2011, 2014), which makes improvisation a product of unique company resources. In a similar vein, we argue that the ability to deploy CCs over and over effectively is indeed a core competence. Secondly, we argue that the CCs should be presented as a specific type of dynamic capability (DC). Luo and Child (2015) acknowledge the resemblance between CCs and DCs. We focus on this resemblance, pointing out that, in the same way as DCs, CCs are particularly important in dynamic environments and are used to achieve competitive advantage by reconfiguring the organization through recombination. In particular, the mechanisms by which CCs function are similar to those shown in Teece's framework (2007). Thirdly, we argue that Luo and Child (2015) focused too much on the emerging economy enterprises (EEEs) as the conceptual setting, without convincing the reader of an explicit need for this. CCs are not applicable to all EEEs and are applicable to many non-EEEs (Luo & Child, 2015). Therefore, we suggest that the authors should either pursue a more general framing of the capability, where managers can eventually decide whether or not to deploy these capabilities according to their specific context, or should explicate why the CC is of particular relevance for the emerging economy context. We emphasize this justification issue to prevent concepts and literatures being developed for specific contexts without there being any particular need to do so. We conclude with a future research agenda to prepare the ground for research on this very interesting topic.

### **FRAMING THE COMPOSITIONAL CAPABILITY: CBV OR AN EXTENSION OF THE RBV?**

Luo and Child (2015) rightly draw attention to the fact that the way in which management is executed may be different across different types of organizations, over time, and across geographical locations. As such, they argue that there is a need for developing new management approaches tailored to these specific circumstances. Attempting exactly this, they argue that the CBV explains how firms without resource advantages and core competencies may 'win in competition with more resourceful and more powerful rivals' (379) by mastering the art of improvisation. The source of competitive advantage is based on 'compositional capabilities' (379).

In order to move beyond this point, a clear explanation of terminology is needed. *Resources* are tangible and intangible organizational assets that can be used to achieve competitive advantage (e.g., Wernerfelt, 1984). Over the years, many RBV scholars, among them Wernerfelt (1984), Mahoney and Pandian (1992), and Peteraf (1993), have described strategic and top management as valuable resources for competitive advantage. *Core competencies* are described as the cross-functional

integration and co-ordination of capabilities at the highest level of business unit (e.g., Javidan, 1998). *Capabilities* are purposeful combinations of one or more routines, directed towards a particular goal (Helfat & Winter, 2011; Parmigiani & Howard-Grenville, 2011). *Routines* in their turn are repeatedly executed recognizable patterns of interdependent actions, which foster efficiency and provide reliability (e.g., Feldman & Pentland, 2003; Parmigiani & Howard-Grenville, 2011). Routines are the building blocks of capabilities and guide (organizational) behavior. *Improvisation* rests on *heuristics* and can be defined as a semi-guided process of decision-making, which allows for responsiveness while maintaining a degree of safety that stems from experiences gained as a result of past decision-making (Bingham & Eisenhardt, 2011, 2014). So, unlike routines, heuristics do not guide (organizational) behavior but decision-making.

Based on this terminology, we do not agree that the CBV should be used on its own. On the contrary, we think that the literature on CCs should be placed within the boundaries of the RBV. Luo and Child (2015) claim that the CBV does not ‘emphasize possession of superior strategic resources as a necessary condition for the firm’s competitive advantage’ (379) and that because of this, the CBV is different from the RBV. However, we argue that to be able to extract competitive advantage from the combination of ordinary resources, this combination needs to be done more skillfully and in a more superior way than their competitors. Otherwise, there would be no possibility of composition-based competitive advantage as the same benefits would accrue to everyone. What does not come through explicitly from Luo and Child (2015) is who the actors are that initiate and manage these superior combinations of ordinary resources. The authors do point to the importance of visionary leaders and strategic management in the compositional process. If this is so, we have shown in the terminology section that management has already been acknowledged for many years to be a resource. Also in the context of CCs, some companies are more successful in arriving at good compositions than others, pointing at the value of the management team in enabling capabilities to be deployed effectively. The important role of improvisation in this context only reinforces the argument that strong management is an extremely valuable resource. This way, contrary to what Luo and Child (2015) have argued, open and generic resources can lead to competitive advantage. However, the idiosyncratic nature of either the capability or the way in which the capability is deployed can lead to competitive advantages (Eisenhardt & Martin, 2000). So if a management team is responsible for creatively combining ordinary resources that leads to firm growth through competitive advantage, then CCs are a distinctive type of capability within the RBV. As such, we conclude that CCs should be seen as a subset of the RBV.

### CCS AS SUBSET OF DCS

To extend the thinking on the positioning of CCs further, we feel that CCs literature belongs to the broader concept of DCS, just as Luo and Child (2015) acknowledge.

However, they offer no explanations as to why this would be the case. The concept of DCs extends the RBV to dynamic industries and attempts to provide insight into the process that leads to competitive advantage in dynamic environments (e.g., Teece et al., 1997). DCs are 1) capabilities that are deployed by 2) either organizations or managers (in this case they would be called dynamic managerial capabilities<sup>[1]</sup>) to 3) reconfigure organizational resources so as to 4) achieve competitive advantage in 5) dynamic environments (e.g., Eisenhardt & Martin, 2000; Teece et al., 1997; Volberda, 1996). Rather than being a type of ad hoc problem-solving (Winter, 2003), CCs are capabilities because they are combinatory actions in which various routines are combined and directed towards a specific goal. In addition, we have discussed how management is vital for a successful compositional process. Also, again contrary to the views expressed by Luo and Child, DCs *can* be used for both renewal and recombination of organizational assets (Helfat & Peteraf, 2003). Furthermore, Luo and Child (2015) emphasize that CCs are used to achieve competitive advantage (379). Finally, the examples that they give (2015), such as those from Dell and Xiaomi, indicate that CCs are particularly suitable for dynamic environments. Given that the intensity of environmental dynamism will vary across sectors and the fact that the compositional process should be tailored to the particular environmental characteristics in force, the precise configurations of CCs will be context-dependent (Eisenhardt & Martin, 2000).

To delve deeper into the positioning of the CC, one can easily reason that the compositional process fits in the DC framework of Teece (2007). He explains that the DC process consists of 1) sensing threats and opportunities, 2) seizing the opportunities sensed – for example, through investment in product development and commercialization – and 3) reconfiguring organizational structures and assets such as product development routines or even specific capabilities so that competitive advantage can be pursued. Sensing in this case reflects what Luo and Child (2015) call ‘identification’ of different sources of resources. The identification process most likely includes the sensing process that starts with scanning for internal and external information and ends with interpreting the information that the organization has been able to acquire. Seizing, in its turn, reflects what Luo and Child call ‘configuration’ of ordinary resources that enable an organization to achieve competitive advantage. For this to happen, the organization has to invest in sensed opportunities and commercialize them. Finally, reconfiguring the organizational assets can be seen as being similar to the ‘integration’ of the recently configured ordinary assets into the organizational structure in order to allow some degree of sustainability regarding the competitive advantage. As such, we argue that CCs are part of the RBV and are a specific type of DC.

## ON THE FOCUS ON EEES

Luo and Child (2015) focus their analysis of CCs heavily on the EEE context. However, as one moves through the article, one cannot but wonder why the

concept should be applicable to all EEEs, or not at all to other sectors across other parts in the world. Luo and Child (2015) themselves indicate that indeed not all EEEs are suitable for deploying CCs, and that SMEs and latecomer businesses in advanced economies are other contexts in which CCs may prove to be useful. We wonder why the CC concept is focused particularly on EEEs? We 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 make explicit what concerns us, considering the internal conduits section, the presence of a visionary leader or a strong management team would generally be advisable for any organization. Also, the lack of core technologies, low brand awareness and weak product differentiation can be said to be characteristics found in most non-tech start-ups, not just those in EEE settings. Start-ups also have an ambidextrous organizational structure as they have to explore new opportunities while preserving sustainability by continuing with ongoing projects (Sidhu, Commandeur, & Volberda, 2007). Also, start-ups can be perceived as resilient as they are less path-dependent, have less to lose, and are more compact and flexible than incumbent firms. Finally, in terms of their positioning, start-ups often choose to pursue a strategy of cost leadership in order to compete with incumbents. Turning to the external catalysts section, the argument that EEEs are spurred by the 'global open market for key components and technologies as well as the growing availability of intermediary resource providers' (379) does not mean that this is not the case for any other organization. On the contrary, it may well be advantageous also for most start-ups in advanced economies as they are able to benefit from low-cost resources that can lead to competitive advantage.

At first glance it may seem right to say that composition is often regarded as the preferred approach in emerging economies. However, Luo and Child (2015) fail to provide a strong rationale for this. We want to dissuade future scholars from trying to develop new strategy concepts for EEEs without presenting adequate justification as to why they are needed. In our view, the reasons that are brought forward for justifying the EEEs as a focal context need more grounding and thought.

## CONCLUSION AND FUTURE RESEARCH AGENDA

Child and Luo (2015) have rightly identified that composition-based strategies should occupy an important place in the strategic management literature. By focusing in particular on the EEE context, they indicate how competitive advantage can be achieved through the combination of ordinary resources. While we applaud this initiative, we have concerns about how the concept has been framed. We believe that CCs should be part of the RBV rather than introduced as a new view in itself—the CBV in this case. We have mainly come to this conclusion due to the importance of management in successfully deploying CCs. In this way we show that even where

ordinary resources are being combined, superior combinatory resources are needed as competitive advantage cannot otherwise be achieved. We delve deeper into what CCs are and illustrate the fit of the compositional process with the DC framework. We believe that, in line with what Luo and Child (2015) also indicate, CCs are a specific type of DCs. Furthermore, we are not convinced of the need to focus on the EEEs context.

Luo and Child (2015) have pointed to a very specific and interesting action taken by particular organizations and have highlighted the mechanisms by which these CCs function. However, we invite research on more concrete, testable boundary conditions, to add to those presented in Luo and Child (2015). For example, when does an organization or a 'visionary leader' decide to recombine resources, and when does recombining stop in order to allow ordinary resources to be replaced or new resources to be developed that might facilitate new product lines? Furthermore, does the point at which these decisions are made differ across different business settings? It may be that particular settings – such as that of a start-up in the Netherlands, for example – allow for earlier acquisition or development of non-ordinary resources and that, because of this, the composition-based strategy might be abandoned sooner as well. In addition, we wonder how the use of CCs unfolds in different types of organization. Is composition still an option in larger firms? Luo and Child (2015) touch briefly on this issue but fail to elaborate sufficiently (p. 39). What is the tipping point after which composition is no longer beneficial? That leads us to another question: how important is time in this concept? Luo and Child (2015) argue that composition may be a strategy for SMEs, but then we ask, is this the case for *all* SMEs or only until the organization has established itself as a stable player in the market? So is it possible that some medium-sized organizations will not use those compositional strategies because they are established enough to grow without combining ordinary assets? It ultimately boils down to the one question that Luo and Child (2015) introduce their concept with, but do not focus on in their article: is the compositional strategy a growth strategy, and if so, what is growth in this context? Is it a strategy that can be used by any organization that wants to grow, or is it applicable only to small organizations that want to grow? Stretching the question, what is small in this case and at what point does the compositional strategy cease to deliver any benefits?

The categorization of types of firms, based on the extent to which composition is relevant for a firm, can bring useful insights into how different organizations with different use of resources relate to each other. However, we do not see being resource-based or composition-based as two distinct 'either/or' alternatives, as we have shown that strategic resources are also very valuable for firms that are pursuing compositional competition. As such, we suggest that this can be represented along two different axes. The x-axis shows the extent to which organizations combine ordinary resources. The content of the y-axis can be used in many ways depending on the particular focus of the authors. One possibility would be to use this axis to indicate the degree to which ordinary resources are either combined or replaced

and renewed. Depending on the axes chosen, we invite an extensive argumentation for the composition-based advantages and for the eventual categorization of firms.

We would like to see more research on the evolutionary mechanics of the CC, similar to that undertaken by Nelson and Winter (1982) and Feldman (2000), for example. The types of questions that could be addressed might include, for example, what kinds of routines is the CC composed of and which actors play fundamental roles within these routines? How are these routines configured? Would they be characterized as precise, complex guiding patterns or would they be of a more general nature, such as the aforementioned simple rules? It is even possible that this type of research might lead us to a different categorization of routines because EEEs may embody non-western organizational structures. Research on cultural and institutional factors, as suggested by Luo and Child (p. 39), would also help us to understand the way in which the routines are configured and how they facilitate operations. An interesting question to address would be whether these routines also allow for change by themselves, as Pentland et al. (2011) recently found, or whether the CC is a prerequisite for change? In either case, how does this change relate to competitive advantage? After all, Pentland et al. (2011) found that even if routines lead to change, they do not necessarily lead to higher performance. This question eventually also brings us to a bigger issue, which concerns how routines that make up CCs differ in their configuration across business environments.

Finally, we feel that CCs should be better positioned within the DC literature. Luo and Child (2015) focus mainly on positioning the CBV within the RBV and the KBV, for example. However, a conceptual reconciliation study could be conducted on how CCs relate to recombinant capabilities (Carnabuci & Operti, 2013), combinative capabilities (Kogut & Zander, 1992; Van den Bosch, Volberda, & De Boer, 1999) or recombination as defined by Helfat and Peteraf (2003), for example. In this way, CCs can be portrayed as unique capabilities which are part of the RBV and DC; they can be distinguished from other 'combinative' capabilities by their focus on combining ordinary resources and they may lend themselves well to use by EEEs.

## NOTE

[1] See Adner and Helfat (2003)

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