

## A Composition-Based View of Firm Growth

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**ABSTRACT** This article presents a composition-based view (CBV), which explicates the growth of enterprises that compete and develop without the benefit of resource advantages, core technology, or market power. The CBV emphasizes how ordinary firms with ordinary resources 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. In addition to defining the CBV, this article explains the key elements of composition-based strategy and the distinctive processes of composition. Although CBV logic can apply to any firm endeavoring to catch up with better endowed competitors, it aligns well with the case of emerging economy enterprises (EEEs), and Chinese ones in particular. Nonetheless, the advantages of adopting composition-based strategy are temporary in nature and will decline over time, especially after the firm passes the imitative or catch-up stage. We also propose an agenda for future research.

**KEYWORDS** composition-based view, emerging economy enterprises, firm growth

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### INTRODUCTION

In today's marketplace, firms can successfully compete and develop without the benefit of resource advantages, proprietary technology, or market power. These firms only possess ordinary resources, lacking strategic assets such as core technologies and brand awareness. Emerging economy enterprises (EEEs) provide examples for such success, while others can be found among small and medium-sized enterprises (SMEs) or latecomer businesses in advanced economies (Chesbrough, 2007). The question arises: how can firms, which are handicapped by a lack of core competencies, win in competition with more resourceful and more powerful rivals? A response requires a new perspective on how some companies possess a capability that differentiates them from better endowed competitors. We call the new perspective a composition-based view (CBV) of firm growth.

The CBV attributes competitive advantage to firms that are able to identify a set of resources available in the market that they can purchase and to combine them in a way that is creatively and speedily adaptive to market requirements. That

is, the firms are savvy in distinctively composing ordinary resources, internal or external, in ways that create specific advantages and a unique developmental path for growth. Considered individually, the available elements of technology, brand, products, capital, services, channel, and brainpower are not advantageous to the firms. They 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). Underlying this are market intelligence, organizational resilience, creative use of imitation, and entrepreneurial ability of the firms.

Compositional processes are illustrated by firms that integrate low cost with new product functions, organize in ways that permit a quick response to market dynamics, and provide increased value or convenience to customers or users. In the business world, this approach is not entirely new. The rapid growth of the Dell Company through its then pioneering system of integrating virtually a combination of suppliers was a path-breaking example of the CBV model, which enabled the company to respond quickly to specific customer preferences at a competitive price (Dell & Fredman, 1999). A decade ago, Korean automakers – despite their inferiority to Western rivals in the individual elements of brand, innovation, technology, dealerships, customer loyalty, and service – composited all of these activities and developed to a level of superiority (Park & Hong, 2012). Today, the increased availability of global open resources and strong global market demand for middle- and low-income consumers, together with their unique strengths in flexibility, bricolage, and connectivity, afford EEEs some new opportunities to capitalize on composition-based strategies.

As a pragmatic approach that reflects their strength in understanding customer needs, such companies mastered the art of improvisation – compositionally offering or competing with whatever is available to them at the time. In early-stage market development, adapting existing technologies and products rather than inventing entirely new ones tends to yield greater returns (Teece, 1986). In the case of emerging economies, these entrepreneurial attributes have enabled the effective exploitation of open resources. Such resources have become more accessible due to improved factor markets and to the increased availability of intermediary technologies, key components and services, and open source platforms. IT-enabled communications technology, industrialized specialization, and improved outsourcing conditions also fortify this accessibility.

Successful EEEs, especially those outside protected state-owned sectors, often demonstrate a compositional competence. Many EEEs today are relentlessly scaling the value chain in pursuit of a greater role in global competition. They increasingly contest developed market leaders, gain market share, and even create new business models. Clearly, there is a growing recognition of the necessity for developing new perspectives on firm growth that embrace an expansive geographic scope, and that recognize the unique growth trajectory of those firms that now serve a greater percentage of the global population than their Western counterparts.

Following the general components of theory building (Weick, 1995; Whetten, 1989), we address *what* (defining CBV), *how* (explaining composition-based strategy and processes), *why* (discussing the reasons why CBV particularly suits EEEs), and *whom* (illustrating CBV variances across different firms). We caution that composition-based strategy has numerous constraints and drawbacks and, therefore, does not fit all EEEs, especially as the latter become larger, more resourceful, and more diversified. Thus, we include a section that illuminates these limitations. Since this article takes the first step toward addressing this new perspective, which we believe is a promising area for future research, we also propose a research agenda for management scholars to develop this view further before drawing final conclusions. To present our logic, we use an inductive theoretic reasoning approach, taking insights from our specific field observations including cases (see Appendix 1), identifying them into patterns, and then broadening such patterns to theoretical arguments and propositions. A distinctive compositional capability is a dynamic capability that, in principle, can apply in any economy to companies having a relatively low endowment. While this article focuses on EEEs, especially Chinese ones, for purposes of illustration, a comparable analysis of the CBV can be applied to many SMEs in developed economies that succeed in winning out despite lacking differentiating resource endowments.

## WHAT IS THE COMPOSITION-BASED VIEW?

The CBV argues that firms with ordinary resources can establish a strong position among their competition by creatively assembling and integrating the open and generic resources they possess or purchase; that is, they are astute in distinctively identifying, leveraging, and combining ordinary resources, external and internal, to create a competitive advantage. The term ‘ordinary resources’ refers to those resources that are neither idiosyncratic nor costly to copy, and that are tradable in the market and can be purchased in or secured from partner firms. The term ‘composition’ connotes the identification, configuration, and integration of (a) different sources of resources (e.g., licensing applied technology and purchasing key components to integrate with in-house production) and (b) different means of competition (e.g., price, value, design, technology, features, and services) to create a competitive advantage manifested in extended offerings (e.g., new product functions, extended consumer experience, and total business solutions), rapid market responses, and superior price-value ratios that suit particularly well the mass market. The firms adopting this approach are particularly proficient in composing new, low-cost designs (especially adding new product functions) and in creating prompt market responses, developing convenience of use, and strengthening customer-oriented services. Emphasizing a distinctive composition of ordinary resources, the CBV recognizes that most resources owned by smaller firms in emerging economies are not idiosyncratic (Chittoor, Sharkar, Ray, & Auhakh, 2008; Luo, Sun, & Wang, 2011). Moreover, the CBV sees separate sources of

competitive advantage moving to a state in which resources are combined and integrated into an interdependent whole.

The CBV identifies two complementary components. The first is compositional strategy. Analogous to a composition for an orchestra, compositional strategy sets out which ordinary resources – musical notes to be played by standard instruments – are to be combined into an extraordinary offering. The second component concerns the processes of implementation – how notes and instruments are actually combined and integrated (harmonized) by the players, normally (but not always) under the leadership of a conductor. Through these processes, resources are organized into outputs that take advantage of market opportunities, typically through rapid adaptation or imitation of available knowledge and technology. This requires the integration of resources within the firm as well as of external resource-providing networks.

The CBV contrasts with the resource-based view (RBV) in that it does not emphasize possession of superior strategic resources as a necessary condition for the firm's competitive advantage. The RBV acknowledges that generic or open resources are important to a firm's routine operations but does not consider them to be the source of sustained competitive advantage (Barney, 1991). By contrast, the CBV underscores the use of multiple sources of open or generic resources – resources which when used in a creative composition may yield a competitive edge to the firm, at least temporarily. On the other hand, in the RBV, valuable but common resources and capabilities are regarded as sources of competitive parity, not as a basis for competitive advantage. The RBV also emphasizes that resources must be owned by the firm, so enabling the firm to conceive and implement strategies designed to improve its performance. The CBV does not make this assumption, suggesting instead that there will not necessarily be any cost disadvantages for the firm to purchase and utilize external resources accessible to it. In other words, buying and using these open resources does not involve time-compression diseconomies (Dierickx & Cool, 1989). Further, as Priem and Butler (2001) point out, the RBV does not address *how* firms manage their (supposedly heterogeneous) resources to eliminate weaknesses and intensify strengths. Processes used by firms to obtain resources, to bundle those resources into capabilities, and then to leverage those capabilities in order to create advantage are of interest to scholars and practitioners alike (Morrow et al., 2007). Finally, the concept of composition extends from resources to be combined to product offerings (enhanced or extended features, functions, and experience after composition), competitive attributes (e.g., price, value, design, speed, services, and customization), and compositional capabilities (e.g., creative imitation).

The CBV comes closer to two perspectives that each draw attention to the process of achieving advantage from resources, albeit focusing on one resource category only. The knowledge-based view (KBV) of the firm introduces as a potential competitive advantage a firm's 'combinative capability to synthesize and apply current and acquired knowledge' (Kogut & Zander, 1992: 384). The KBV

is focused on the synthesis of knowledge so as to create new possibilities to take advantage of market opportunities. It is allied to the concept of absorptive capacity, which, despite ambiguities over its definition, components, and consequences, is generally acknowledged to refer to a firm's capability to value, assimilate, and apply new knowledge and utilize it so as to gain and sustain a competitive advantage (Cohen & Levinthal, 1990; Lewin, Massini, & Peeters, 2011; Zahra & George, 2002). Zahra and George (2002: 188) argue that absorptive capacity is a dynamic capability 'that influences the firm's ability to create and deploy the knowledge necessary to build other organizational capabilities (e.g., marketing, distribution, and production)'. The achievement of an absorptive capacity, therefore, is likely to support a compositional advantage. However, despite this potential spillover impact on other resources, the focus of absorptive capacity remains on knowledge as a special resource, whereas the CBV focuses on the combination of resources in general.

The CBV is not incompatible with the KBV or the absorptive capacity concept, but its emphasis is different and more comprehensive by addressing the ways in which a *wide* range of *ordinary* resources can be integrated into providing a superior competitive offering. Importantly, this process is seen to be typically informed and motivated by leading entrepreneurs who articulate a guiding strategic vision and pursue a distinctive approach to managing resources.

Growing attention is being paid to resource management. According to Morrow and colleagues (2007), resource management is the comprehensive process of structuring the firm's resource portfolio, bundling the resources to build capabilities, and leveraging those capabilities with the purpose of creating and maintaining value for customers and owners. The process of bundling resources consists of stabilizing (continuous improvement of existing capabilities), enriching (repackaging existing capabilities into new but related capabilities), and pioneering (combining a newly acquired capability with an existing capability). This extends the RBV and supports the CBV. Firms may utilize differences in a resource portfolio as a source of competition (Yeoh & Roth, 1999) or may use organizational procedures and routines as a source of strategic flexibility to increase their ability to respond to environmental opportunities or threats (Feldman & Pentland, 2003). However, in the resource management literature, stabilizing and enriching processes deal with the bundling of internal or existing resources rather than external open resources.

Meanwhile, the CBV complements the above views in some important areas, because the composition process itself is a distinctive, firm-specific, and dynamic capability in terms of the seminal definition offered by Teece, Pisano, and Shuen (1997: 516), namely, 'the firm's ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environments'. As Easterby-Smith, Lyles, and Peteraf (2009: S4) note, 'the changing allocation and utilization of resources is a critical part of dynamic capabilities'. The CBV emphasizes the firm's need to adapt its use of resources in an agile manner to fast-changing competitive conditions. While the CBV does not assume that it is the possession

of superior resources *per se* that provides a sustainable competitive advantage, the composition process is a critical capability or knowledge that is heterogeneous and not always easy to imitate. Composition is not a simple aggregation or multiplicity of different resources or capabilities; it is a compound or multifactorial that requires harmonious arrangement and integration of contributing resources, capabilities, services, or sources of competitive advantage in relation to one another and to the whole. Composition mandates both synchronized and synergetic combinations of a multitude of contributing elements within the firm and even extends to the supply chain. Table 1 summarizes both the differences and complementarity between the CBV and other above-mentioned views.

Consistent with the dynamic capability perspective, the CBV acknowledges that competitive adaptation requires freedom from path dependence in respect to relying on existing routines and resource combinations. However, whereas the dynamic capability perspective assumes that executives need to engage in resource adaptation or renewal because the value of existing resources depreciates in the light of external changes, the compositional perspective focuses on the competitive advantage that can be gained from combining *existing* resources in *novel* ways. Moreover, the CBV encompasses the insights offered by two separate streams of thinking about the nature of dynamic capabilities. The first stream emphasizes the strategic leadership that envisions effective resource combinations, while the second highlights the processes or routines through which combination (i.e., integration) is achieved (Di Stefano, Peteraf, & Verona, 2014; Eisenhardt & Martin, 2000).

## THE COMPOSITIONAL STRATEGY

The compositional strategy comprises three mutually supporting elements: compositional offering, compositional competition, and compositional capability.

### Compositional Offering

We face a new market landscape characterized by increased availability of open resources, heightened customer demands for extended services and total solutions, and the proliferated adoption of cross-industry or cross-boundary technologies (Dahlandera & Gann, 2010; Lavie, 2006). Compositional offering is a viable response to this. It occurs when the firm amalgamates an extended array of its products' performance features and functions, as well as services for existing customers whose satisfaction increases as a result of this extension and amalgamation. Such an approach works because it provides customers with amplified services, value, convenience, and even time savings, yet does so at a cost that is significantly reduced from that of nonamalgamated or separated functions or services. An illustration of this approach is when consumer and industrial products or services are offered through one-stop shops or total business solution models. Again, the rampant utilization of cross-industry or cross-boundary key technologies and key components provides value opportunity,

Table 1. Comparing the CBV with other views

	Composition-based view	Resource-based view	Knowledge-based view	Absorptive capacity	Resource management view
Differences	<ul style="list-style-type: none"> <li>• CBV delineates the importance and process of creatively composing and integrating numerous capabilities or resources that have been perceived as ordinary or generic</li> <li>• These firms are astute in distinctively identifying, leveraging, and combining ordinary resources, external and internal, to create a unique path for growth</li> <li>• Featured by extended product features, higher price-value ratio, and stronger responsiveness to mass markets</li> </ul>	<ul style="list-style-type: none"> <li>• CBV contrasts with RBV in that it does not emphasize possession of superior strategic resources as the prerequisite for building a competitive advantage</li> <li>• ‘Ordinary’ resources stated in CBV are neither idiosyncratic nor costly to copy and can instead be purchased in an open market. RBV perceives common resources as competitive parity</li> <li>• RBV addresses the importance of critical resources owned by the firm but doesn’t explain how the firm leverages them</li> </ul>	<ul style="list-style-type: none"> <li>• KBV introduces a firm’s ‘combinative’ capability to synthesize and apply current and acquired knowledge</li> <li>• KBV is focused on the synthesis of knowledge so as to create new possibilities to take advantage of market opportunities</li> <li>• CBV is more comprehensive by addressing the ways in which a wide range of ordinary resources can be integrated into superior competitive offering</li> </ul>	<ul style="list-style-type: none"> <li>• AC refers to a firm’s capability to value, assimilate and apply new knowledge and use it to gain and sustain a competitive advantage</li> <li>• AC focuses on knowledge and its management as necessary conditions for innovation</li> <li>• CBV is more comprehensive by addressing the ways in which a wide range of ordinary resources can be integrated into superior competitive offering</li> </ul>	<ul style="list-style-type: none"> <li>• RMV focuses on the process of structuring, bundling, and leveraging the firm’s resource portfolio owned by the firm</li> <li>• This process involves stabilizing, enriching, and pioneering</li> <li>• RMV holds that resource management can be a source of strategic flexibility and competitive advantage</li> <li>• Like RBV, RMV focuses on heterogeneous, not generic or open, resources</li> <li>• RMV’s bundling process deals with bundling of internal or existing resources</li> </ul>
Complementarity	<p>While CBV differs and extends other theories in numerous ways, as noted in the paper, those theories help and complement some key dispositions of CBV</p>	<ul style="list-style-type: none"> <li>• Composition process is a distinct competence and critical capability that is valuable, heterogeneous, and not always easy to imitate. It generates firm-specific advantage</li> <li>• Compositional advantage cannot hold permanently. A firm’s ultimate goal is to build strategic resources and capabilities as RBV states</li> </ul>	<ul style="list-style-type: none"> <li>• Composition process can be a tacit knowledge whose development involves both economic and social processes inside the firm and with other firms</li> <li>• Combinative capability is a part of compositional capability</li> </ul>	<ul style="list-style-type: none"> <li>• AC draws attention to the management of knowledge resources &amp; in this respect helps inform the compositional process</li> <li>• AC is a dynamic capability that can enhance other resources. The conditions for AC to be achieved are similar to those likely to sustain a compositional advantage</li> </ul>	<ul style="list-style-type: none"> <li>• The bundling logic provides one of the theoretic bases to explain CBV</li> <li>• RMV shifts a focus from establishing new resources to bundling and using existing resources, which is consistent with CBV</li> <li>• Some resource management practices can apply to the process of composition</li> </ul>



while technology standardization and component modularization create cost-saving opportunities for compositional offering. Garud and Kumaraswamy (1993) demonstrate that in industries characterized by a connected open network, standards-based technologies and network interconnections break several 'isolating mechanisms' (Rumelt, 1984) that used to prevent rivals from gaining access to technical knowledge embodied in components and their interface standards.

Compositional offering differs from normal product or service extension in that it provides a unique consolidation and integration of the product's functions or services within one product or one-stop service, creating better responsiveness to customers and greater customer satisfaction than is offered by rival companies. Xiaomi's triathlon compositional offering includes software, hardware, and internet. Mi-TV, one of the world's fastest-growing smart TV brands, redefines the TV experience through its built-in, compositional Mi-Box: it offers thousands of free HD movies, TV shows, and karaoke songs and composes TV programs, movies, photos, websites, videos, games, music, and Apps, allowing users to play games and music or view photos and videos by streaming Apps from their phone or tablet to television, use a Mi phone to control Mi-TV, and play videos and music directly from a flash or an external hard drive. Offering these numerous features and functions is not simply a matter of adding the functions to the device. Rather, it involves technologically reconfiguring and recomposing them in combination with a redesign of such integral components as the technical platform, coding system, operating system, and cross-functional interconnection system. Similarly, Tencent uses as its slogan a composition of one-stop online lifestyle services. Its WeChat offers combined Internet services, including online media, text messaging, hold-to-talk voice messaging, broadcast (one-to-many) messaging, sharing of photographs and videos, and location sharing, all of which are integrated across the operation systems of personal computers, smart phones, and tablets and are integrated with social networking services such as those run by Facebook and Tencent QQ.

Depending on the nature of industries and businesses, some compositional offerings may create value through improved convenience or cost saving (e.g., all-in-one PCs or washer and dryer combined in one machine), while other compositional offerings may emphasize value enhancement, total business solutions, integrated services, and new experiences. Again, the availability of the open or public technical platform (a set of interfaces and subsystems that can form a common frame through which a series of various products can be effectively improved and produced) has spurred the above compositional offering. Some firms build their own platforms (e.g., Xiaomi's Mi-Box); others use platform suppliers (e.g., Taiwan's MediaTek, which serves numerous cellular phone producers in mainland China).

### **Compositional Competition**

Compositional competition exists when a firm uses a set of combined and consolidated means and measures to compete successfully against competition.



Instead of focusing predominantly on a single means of competing (e.g., low cost, premium brand, new functionality, customer-focused design, or extended warranty), compositional competition combines these multiple features, providing customers with a higher price-value ratio than they would find from the firm's competitors. Such a compositional competitive strategy has strong performance benefits in both mass and niche industries (Zott & Amit, 2008). Many EEEs realize that a pure cost leadership strategy would not be able to support their sustained growth, while SMEs do not have the scale to support it (Zeng & Williamson, 2007). On the other hand, pure differentiation is not appropriate, due to the shortfall in advanced technologies, brand reputation, and original innovation (Luo et al., 2011). Also, a focus strategy is not well suited to the mass markets most EEEs serve, although it can be viable for niche-player SMEs. Compositional competition thus seeks to exploit opportunities associated with mass markets (middle class, below-middle class, and base-of-pyramid consumers) and leverage firms' strengths in resilience, speed, flexibility, and compositional skills. They compete based on a composition of combined price, design, functionality, quality, features, volume, and services. Stated alternatively, EEEs do not possess a competitive advantage in such areas as technology, brand, product, and services when these are separated, but begin to secure advantages when composing them into building blocks for competitive advantage including price. Their sharpened market intelligence, unique ability to cultivate business networks, and knowledge of where and how to find open resources make it possible for these firms to undertake compositional competition (Luo et al., 2011; Zeng & Williamson, 2007).

Many EEEs that adopt compositional competition deliver suitable technology at a low cost by leveraging cheap R&D resources, betting on low-cost alternative technologies, and using the rise of open architecture. A 2011 survey by the Economist Intelligence Unit, commissioned by UK Trade & Investment, shows that 53% of Chinese companies said they would realistically prefer to put their money toward improving cost efficiency-related compositional competition rather than toward new product innovation. On the other hand, many EEEs are also able to offer customers an extensive variety of choices at mass-market prices through a focus on process improvement and recombination of existing technologies (Zeng & Williamson, 2007). EEEs continue to apply scale-based technology to specialty products, thus transforming businesses by dramatically reducing costs and prices and, hence, by increasing volume. China's SANY has been successful in competition against its long-term rivals such as Caterpillar, Komatsu, Hitachi, and John Deere. SANY was able to do this by basing its strategy on a composite of price (often 20% cheaper), value (owns 536 patents), quality ('quality changes the world' is its slogan), volume (it is China's largest manufacturer of truck cranes and is the world's largest concrete pump machinery manufacturer), and functionality (it is perceived by clients as superior to rivals), which resulted in a significantly higher price-value ratio than could be found from its lead competitors (Luo et al., 2011).

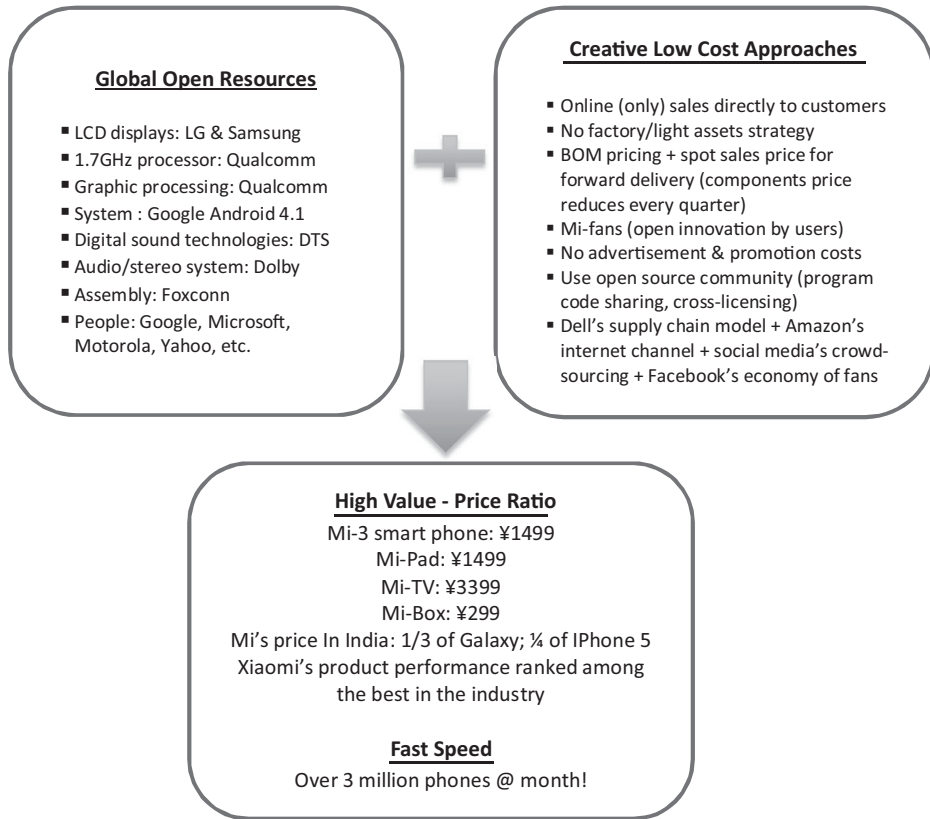


Figure 1. Xiaomi's compositional competition

Xiaomi has achieved the same goal by integrating some of the best key components purchased through long-term supply alliance agreements with the top suppliers in the world with its creative low-cost methods such as online sales, no-factory model (outsourcing production to Foxconn), user feedback via Mi-fans, and utilization of the open source community (e.g., program code sharing). Xiaomi uses LCD displays supplied by Samsung and LG; processors manufactured by Qualcomm; digital sound technologies supplied by DTS; audio/stereo systems provided by Dolby; and key engineers recruited from Google, Microsoft, Yahoo, and Motorola. Yet Xiaomi is innovative in creating some cost cutting approaches including its bill of material (BOM) pricing and the use of spot sales price for forward delivery (component's price reduces every quarter). In our view, Xiaomi's compositional competition can be best summarized as a creative composition of Dell's supply chain model, Amazon's internet channel model, social media's crowd sourcing, and Facebook's economy of fans. Figure 1 illustrates Xiaomi's compositional competition as well as its performance consequences including high price-value ratios and quick market responses.

## Compositional Capability

Compositional capability refers to the extent to which a firm is able to synthesize and integrate disparate resources, including the open resources available to them. This capability itself is critical and distinctive and can be a source of the firm's competitive advantage. The resource management logic (Morrow et al., 2007; Sirmon, Hitt, & Ireland, 2007) similarly addresses the importance of this capability, shifting a focus from developing new resources to bundling and integrating existing resources. Owning a valuable and rare resource is necessary for competitive advantage, yet alone it is insufficient. Such resources must be effectively bundled and deployed to exploit opportunities or mitigate threats in specific competitive engagements for firm to realize a competitive advantage (Kor & Mahoney, 2005; Sirmon, Gove, & Hitt, 2008). Kogut and Zander's combinative capability view (1992) also shares the logic that what firms do better than markets is the sharing, transfer, and combining of the knowledge of individuals and groups within an organization. This knowledge consists of information (e.g., who knows what) and of know-how (e.g., what and how to compose). Firms learn new skills by recombining their current capabilities.

Complementing the above views, the compositional capability logic takes one further step, emphasizing not merely resource bundling and integration but more importantly 'competitive attributes' bundling and integration. Competitive attributes are the sources or building blocks (e.g., quality, features, price, speed, innovation, design, customization, services, and brand) that contribute to a competitive advantage in the marketplace. Bundling these attributes, which often results in high price-value ratio, is vital to the success when competing in the mass market in both developed and developing economies, because mass consumers in such a market desire integrated low cost and quality, services, and product features (McKinsey, 2012).

A blend of imitation and innovation, or mutation (transformation), illustrates this. Such composition underscores a departure from conventional views of imitation, emphasizing the use of imitation in the pursuit of optimal adaptation as input rather than as solution. In effect, firms leverage imitation to generate new competitive strategies, instead of adopting already existing ones. Such compositional capability is featured by the use of imitation in innovative ways. Unlike conventional views of imitation, where the main goal is the complete reproduction of a product, strategy, trait, or behavior, with the purpose of mimicking the industry leaders (for a review, see Lieberman & Asaba, 2006), a composition of imitation, creation, and innovation is used to develop a composition-based competitive edge or to support future innovations as the firms evolve. Innovators' products are rarely imitated entirely. Instead, these firms select only those aspects of the innovators' offerings that fit their goals. In addition, the imitated technology, design, or function is often modified or improved before it becomes a part of the imitator's offerings. Instead of following the leaders, EEs build on them in order to pursue new advantages.

Xiaomi's technological capabilities have been largely built by this compositional approach, encompassing reverse engineering, emulation and benchmarking, foreign technology licensing, and adaptive technological innovation of its own. It emulated Apple's design (iPhones), marketing strategy, and product introduction ceremony in which Lei Jun, Xiaomi's founder and CEO, strode onto a stage, dressed in a black polo shirt, jeans, and black converse shoes, not much different from Steve Jobs' trademark outfit. Yet Xiaomi is innovative too. For example, it enables and helps users to design their operating systems. Every Friday at 5:00 pm local time, Xiaomi releases a new round of software updates for its own Android-based operating system (MIUI) to users in China and in Western countries. Within hours, thousands of fans are on Xiaomi forums (via Mi-fans platform) to describe bugs and give feedback. Fans have been asked to weigh in on how much memory they want in their phones, how thick the next generation model should be, whether there should be a flashlight on the back of the phone, and the like. The Mi-fans platform also bolsters Xiaomi's corporate image and reputation.

Another form of compositional capability is the mixture of product innovation, process innovation, and managerial or organizational innovation – an issue important not only to EEEs but also to businesses in advanced markets (Birkinshaw & Mol, 2006; Hamel, 2006). Some successful EEEs are shrewd in integrating these three types of innovation, typically combining what they have learned about product and process innovation from advanced country peers with their own unique managerial or business model innovation. Xiaomi's business model innovation sets itself apart from Apple and other rivals. For instance, to sell good-quality cell phones at a low price, Xiaomi keeps each model on the market far longer (on average two years) than Apple does. Rather than charging high prices to cover the high cost of state-of-the-art components for new phones, Xiaomi prices the phone just a little higher than the total cost of all its components (i.e., BOM pricing). As component costs drop over the two-year period by more than 90%, Xiaomi maintains its original price and pockets the difference.

Further, many EEEs simultaneously conduct original equipment manufacturing (OEM), original design manufacturing (ODM), and original brand manufacturing (OBM) as a way to build compositional capability. This approach leverages both exploitation (OEM) and exploration (ODM or OBM), combines learning from both other firms and from internal analysis, and utilizes both internal and external resources. Galanz, China's largest microwave producer and exporter, operates three shifts a day to manufacture microwaves for OEM clients such as Panasonic and Toshiba and distributes OEM brands through Walmart and Sears. Meanwhile, it conducts its own ODM and OBM for both domestic and overseas markets by leveraging its large-scale yet advanced manufacturing facilities, purchasing power transformation technology from the open market, acquiring support from public scientific institutions (e.g., Guangdong Academy of Science), and developing its own magnetron technology with improved mechanical design, quality, and functions. This composition enables Galanz to set price points on most of its products that

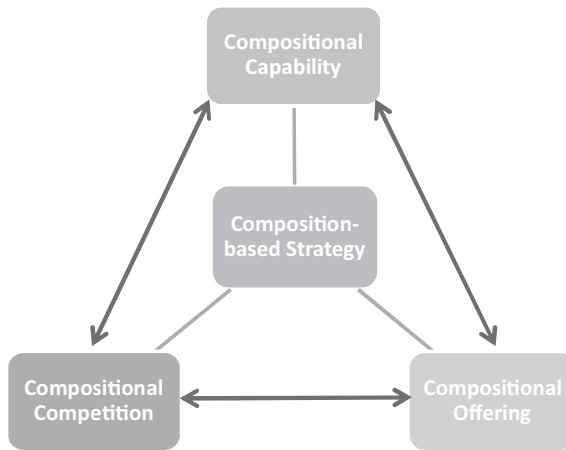


Figure 2. Elements of composition-based strategy

are 40% cheaper than those of international brands, while continuing to introduce new designs (owning over 1,000 design- or appearance-related patents).

Figure 2 showcases the three elements of composition-based strategy, as well as their interrelationships. Compositional capability serves as the foundation on which compositional competition and compositional offering can build and forge ahead. This foundation determines how far the firm can go in adopting composition-based competition and orchestrates actions that the firm undertakes in implementing compositional offerings. While compositional competition manifests the firm's business-level strategy, focusing on the logic of using compositional building blocks for achieving a competitive edge, compositional offering expresses the firm's operational-level strategy, pinpointing the spirit of providing maximum values (e.g., total solutions, one-stop services, or integrated functions) in a cost-effective manner. The above three elements reinforce one another, reflecting the faces of composition at the product level (compositional offering), market level (compositional competition), and organizational level (compositional capability). Yet they collectively and consistently demonstrate a pragmatic and viable solution for the growth of ordinary firms that possess ordinary resources in emerging economies.

## THE COMPOSITIONAL PROCESS

As Ludwig and Pemberton (2011) point out, we lack an understanding of the specific processes that constitute dynamic capability building. Similarly, we need an understanding of the processes whereby composition-based strategy is achieved in order to explicate the CBV fully as well as to provide some guidelines for its application. Clearly, a method to identify needed resources, bundle these resources into capabilities, and then leverage these capabilities is distinctive and firm specific.

The CBV recognizes that the capability of synthesizing and utilizing existing resources or capabilities that are imitable and redeployable can be a source of competitive advantage, at least temporarily. It extends Kogut and Zander's (1992) concept of combinative capability, whereby difficult-to-imitate and hard-to-redeploy knowledge may be recombined through internal and external learning.

While the resources to be composed may be generic or open, composition itself is tacit knowledge. In this respect, the notion of localized learning introduced by Kogut and Zander (1992) applies to the CBV. Although imitable and redeployable resources can be purchased externally, the information about where to find such resources may be proprietary. Learning how to compose requires the firm's expertise and involves procedural and process knowledge. It also requires the firm's familiarity with localized factor markets from which to buy generic resources, with localized networks from which to source other intermediary or specialized resources and with localized market opportunities and customer needs. Not all firms have equal intelligence about where to find generic or open resources that meet the firm's needs, nor do they necessarily have identical bargaining power in dealing with markets that are open for bargaining.

Firms that do not possess superior resources or market power need an active management of external relationships. This is illustrated by thriving EEEs whose leadership has adopted a proactive policy toward the external environment, which has two strands. The first is a strong entrepreneurial orientation aimed at exploiting external opportunities. Opportunity-related strategic intent and a heightened entrepreneurial orientation often drive the unique act of composition and, in this way, moderate between resources and performance (Wiklund & Shepherd, 2003). Composition stems from a firm's strong entrepreneurial orientation in establishing its intention to exploit external opportunities. In relatively rapidly growing emerging economies, external opportunities abound, but they often require adaptation to special market circumstances related to limited purchasing powers, cultural preferences, and physical environmental conditions. Successful EEEs exhibit an ability to exploit external opportunities through the rapid adaptation of known technologies. Success in new product development among Chinese entrepreneurial firms is promoted by a combination of technological capability with the use of external networks to acquire relevant resources for innovation (Ahlstrom & Bruton, 2002). Such firms are often led by executives who have sharp vision and who have adopted pragmatic measures in order to tap into new markets through a well-prepared new business model that is frequently tied to networks and to adaptability ascribed to the learning advantage of newness.

The second strand is network competence in the sense of an ability to pull together the resources required to enable the exploitation of external opportunities. While many of these resources are more readily available than they were previously, building them often requires drawing from a range of various sources and ties. Nee and Oppen's (2012) surveys of private firms (predominantly SMEs) in China's Yangzi region led them to conclude that 'all of the key factors required for

successful entrepreneurship could be found and secured through network ties and bottom-up institutional arrangements' (259). These firms lacked established brand names and, for the most part, an in-house R&D resource. However, their location in industrial clusters allowed them to benefit from stable supply chains that offered the technical support and material inputs required for adaptive and flexible production. Interfirm networks within the clusters, together with access to critical inputs, enabled them to undertake adaptive innovations. They also benefitted from access to downstream distribution networks linked to domestic and foreign markets. The development of these external networks arose initially from the initiative of pioneering entrepreneurs, which then triggered a self-reinforcing evolutionary expanding circle of new entrepreneur entrants. Steinfeld and Beltoft (2014) find that many Chinese firms have become extremely adept at operating in and coordinating complex networks. Their approach corresponds to what has been called the 'new dynamic capabilities' perspective (Shuen & Sieber, 2009).

On the internal side, many EEEs achieve composition-based advantages through an adept management system within the firm that maintains a fine balance between central direction and decentralized adaptive initiative. In the case of Chinese firms, this 'hybrid' approach to management combines the establishment of goals, budgets, and timelines by top management, cascaded down through a strong vertical hierarchy, with a high level of decentralized horizontal flexibility, which allows a rapid team-based response to problems that arise as well as the ability to reconfigure organizationally in response to market changes (Williamson & Yin, 2014). Williamson and Yin (2014) offer the example of SIM Technology Group, a company that designs and manufactures cell phones. They comment that 'whenever the company hits a road-block in the course of creating a new product, it brings together experts across all the disciplines (hardware, software, industrial design, user interface and aesthetics, testing, procurement and production)' (ibid: 31). These firms also often break down the process of incremental innovation into a large number of small steps suited to the capabilities of less expensive engineers and technical staff who do not normally have design or other high-level skills and who, in this sense, represent 'ordinary' resources. The compositional process, however, requires that this specialization does not become rigidly formalized and that it is accompanied by effective means of internal communication and coordination between parallel streams of work, so enabling product adaptation and development to be accelerated through 'simultaneous engineering'. These are organizational features reported in innovative Chinese firms by Williamson and Yin (2014) and tend to characterize SMEs as well (Alpkan, Yilmaz, & Kaya, 2007).

The combination of top-down vision with decentralized horizontal flexibility enables firms with ordinary resources to secure a competitive advantage by reducing lead times, speeding up problem solving, and hence adapting rapidly to market opportunities. The compositional process amounts to a form of organizational ambidexterity in that it requires simultaneous attention to different resource categories with a view to their creative combination. However, this contrasts with



the most commonly discussed type of ambidexterity, which involves balancing and reconciling knowledge exploration and exploitation. Rather, the ambidexterity that typifies the compositional process entails the balancing and integration of a range of resources in the bundling of ‘competitive attributes’ – such as quality, features, price, speed, innovation, design, customization, services, and brand – that contribute to a competitive advantage in the marketplace. It is a kind of ‘contextual ambidexterity’, which is the capacity to achieve an appropriate coherence between separated activities across an entire business unit while at the same time being able to adapt them to changing circumstances and priorities (Gibson & Birkinshaw, 2004).

We have noted that adaptive Chinese firms manifest two forms of organizational ambidexterity. The first combines top-down direction with decentralized initiative for achieving flexible reconfigurations of work organization. The second combines task specialization to suit limited skill resources with effective coordination. Their approach is consistent with the description of the ambidextrous organization given by Tushman, Smith, Wood, Westerman, and O’Reilly (2010), namely, organizational designs that couple high structural differentiation with targeted linkage and team integration.

The achievement of a combinative strategy and process in Chinese firms has important leadership supports. These reside particularly in the moral dimension to Chinese leadership offered by Confucianism as well as the importance attached to the value of collective harmony. This dimension is reflected in leader integrity, as witnessed by benevolence and high ethical standards especially toward employees (Zhang, Chen, Chen, & Ang, 2014). Benevolence includes an emphasis on the teaching, training, and guidance of subordinates. Benevolent leadership rooted primarily in Confucianism has been conceptualized as ‘paternalistic leadership’ (Farh & Cheng, 2000) or ‘directive-achieving leadership’ (Leung, 2014). This is a positive form of authoritarian management that is widely accepted by employees in relatively high power-distance cultures. It is consistent with harmonious vertical relations and the willingness of organizational members to cooperate in pursuit of a common purpose defined by a competent and caring leadership. Insofar as this type of leadership process can motivate employees to work collectively toward a coordinated deployment of resources to implement management’s strategic intentions, it is an effective way to support a compositional capability. The legitimacy enjoyed by many Chinese entrepreneurs in the eyes of their staff certainly facilitates both the strategic and operational achievement of composition. Externally, Party membership and close informal ties with local governments also support the legitimacy of entrepreneurs among officials who continue to control key parameters such as the provision of finance and granting of licenses.

Many Chinese entrepreneurs appear to have the capability of managing both internal and external relationships in ways that constructively contribute to a compositional strategy. This capability would appear better suited to the combinatory aspect of composition than the Western business norm of impersonal

instrumental relationships (Chen, Chen, & Huang, 2013). Despite ways in which the mutual obligations inherent in Chinese *guanxi* can become burdensome and even inhibit business development, there is evidence of a widespread belief that *guanxi* ‘still plays a central role in obtaining a deal, necessary information, capital or any other essential resource’ (Nojonen, 2007: 32). Such connections, for example, tend to increase information sharing between business partners as well as the ability of firms to scan the environment and adjust effectively to market changes. However, gaps in our knowledge remain. For instance, relatively little is known about the processes through which relational ties create specific compositional advantages.

The compositional process relies on the recognition and management of interdependencies, both inside the firm and with external network partners. Research suggests that up to a certain level of complexity, interdependencies have positive consequences for firm performance (Lenox, Rockart, & Lewin, 2010; Lewin, Weigelt, & Emery, 2004). The key appears to lie in the number of strategically important interdependencies that firms have a capability to manage in ways that ensure adequate integration between them (Caspin-Wagner, Lewin, Massini, & Peeters, 2013). There may be certain boundary conditions to that capability stemming from cultural specificity and organizational size, respectively.

## WHY CBV SUITS EEES

### Internal Conduits

Numerous studies have documented the weaknesses of EEES, such as the lack of core technologies, low brand awareness, and weak product differentiation (Luo et al., 2011; Nee & Opper, 2012; Tan & Peng, 2003; Wright, Filatotchev, Hoskisson, & Peng, 2005). Such weaknesses prompt them to proactively and creatively search for and use open and generic resources. But more importantly, we submit that EEES’ strengths including *cost advantage*, *ambidextrous advantage*, and *resilience advantage* together foster their compositional capabilities. EEES achieve cost-saving efficiency not only from lower costs of production and human resources (though reports suggest that such costs are on the rise), but from the in-shore outsourcing on which they increasingly rely. Many EEES are capable of offering ‘cost innovation’ (Zeng & Williamson, 2007), delivering suitable technology at lower cost by leveraging cheap R&D resources, betting on low-cost alternative technologies, and using the rise of open architecture to compete against their competitors’ high-margin proprietary systems. EEES apply scale-based technology to specialty products, thus transforming the businesses by dramatically reducing costs and prices (Hout & Michael, 2014). This cost advantage provides the firm with a strong position from which to undertake a compositional process, combining its improved skills in design, speed, and price, as well as in knowledge of market demands and open resources.

EEES tend to have a greater propensity for ambidexterity (Chen & Miller, 2010; Luo & Rui, 2009). As noted, this ambidexterity concurs with the composition

philosophy and supports the composition process by amplifying the synergetic elements and suppressing the conflictual elements of composition. An EEE's ambidextrous advantage augments composition in leveraging the firm's strengths (e.g., cost-effective yet large-scale manufacturing capabilities, skills for adapting quickly, yin-yang philosophies, ability to survive hardship, and network building) while surmounting weaknesses (e.g., acquiring key assets via licensing or acquisition in order to redress their capability deficiencies and springboard acts to mitigate the late mover position in international markets). We view composition essentially as an ambidextrous journey or process that simultaneously exploits internal and external resources, combines process innovation and managerial innovation, blends imitation and innovation, and integrates in-house specialization and open resources.

Many privately owned EEEs are organizationally, structurally, and operationally resilient (Luo et al., 2011), which is attributable to their flat structure, adaptive ability in challenging environments, decision-making roles that are shared with frontline managers, and entrepreneurial orientation of leadership (Ahlstrom & Bruton, 2002; Peng, 2001; Yiu, Lau, & Bruton, 2007). Resilience, a critical organizational capacity for continuous reconstruction (Hamel & Valikangas, 2003), is needed for implementing composition. It helps EEEs meet customer needs on the spot, capturing opportunities that may otherwise be lost and averting crises through quick and effective action. This resilience is built cumulatively from EEEs' bricolage – the enduring practice or experience of surviving under institutional hardship and pressure and creating order out of whatever resources are available to them at the time. Many successful EEEs, especially during their early-stage operations, share the characteristic of bricoleurs who remain creative under pressure, precisely because they routinely act in tough conditions and create order out of those conditions (Ahlstrom & Bruton, 2002; Madhok & Keyhani, 2012). Thus, facing situations that begin to unravel is simply a normal and natural condition for them, and they have learned to proceed with whatever resources are on hand. Tenacious institutional hardships such as regulatory hindrance, policy uncertainty, weak legal protection, ubiquitous corruption, and poor public services, along with increasing competitive rivalry and attacks, have propelled many EEEs to develop a unique ability to survive under economically fragmented and institutionally harsh conditions (Cuervo-Cazurra & Genc, 2008). When realizing fresh opportunities in new geographic regions (domestic and international), they can leverage their advantages through institutional arbitrage, organizational resilience, and learning advantages of newness (Boisot & Meyer, 2008; Cuervo-Cazurra & Genc, 2008).

Finally, emerging economies, especially those in Asia, have a long tradition of upholding harmony and yin-yang philosophy (Luo, 2014), which culturally underpins the CBV. This philosophy attaches high value to embracing and unifying differences and diversity as well as to building and respecting relationships in response to uncertainty. By embracing and unifying opposite traits, this philosophy recognizes paradoxical values embedded in conflicts and differences. Taoists believe that opposite polarities, as noted in the yin-yang principle, are actually balanced and

work together through cycles, thus creating a harmonious world. This philosophy also has regard to the environment dynamic, advocating a harmonious coevolution, coadaptation, and codevelopment with the external ecosystem. Congruent with this, the CBV's underlying logic is to embrace both diversity and its integration in order to create value for the firm. For instance, it does not perceive low cost and innovation as adversaries but instead as open to unification. The philosophy of harmony and yin-yang also bolsters organizational and operational flexibility or resilience for EEEs.

### **External Catalysts**

CBV also particularly suits EEEs because of a unique set of external conditions facing these firms. First, in comparison with their rivals' products and services, the compositional offerings and compositional competition of EEEs make their products and services more affordable to home-market consumers, most of whom are highly sensitive to the price-value ratio (McKinsey, 2012). Second, a growing number of specialized industrial design companies from Western countries that combine science, engineering, and creativity are moving into emerging markets, notably China, and are shifting their focus from creating products for international clients such as GE or Siemens to creating designed-for-China goods. Many industrial design villages, parks, and hubs have been built in numerous cities; in Beijing alone, there are more than 250,000 jobs in industrial design (KPMG, 2012). By working with Chinese designers and companies but utilizing the Western design techniques developed in their home countries, foreign industrial designers fill the void that is created by the EEEs' lack of advanced world-class and cutting-edge methods, thus making composition much easier. Additionally, as China's global manufacturing centers on geographic and industrial clustering, a manufacturer can readily obtain all or almost all the supplies, technology, tools, components, intermediary offerings, specialized services, and the like that are needed, yet can do so all within the same park in which the firm is located. This physical structure facilitates composition.

EEEs' composition is further enabled by the global open market for key components and technologies as well as the growing availability of intermediary resource providers. This availability has reduced the burden for EEEs of investing heavily in R&D and has enabled them to mass manufacture or recombine using standardized technology (IBM, 2007). The market landscape for acquiring resources is now quite different from that of a decade or more ago, in that today various intermediary resources or inputs are available. These include professional industrial design, standardized technologies, assembled key components, distribution specialists, total logistics solution providers, and advertising and promotion specialists. This new landscape is particularly striking nowadays in both developed and large emerging economies (Malone, Laubacher, & Johns, 2011) where industrialization, along with information and communication

technology development, fosters a growth of a large number of such specialized and professional industrial and service providers. In the PC market, the latest technologies developed in Silicon Valley can spread to China within several weeks. This, for instance, allows Dongguan, a small city in the Guangdong province with the world's highest concentration of component manufacturers, to provide Chinese PC markets with a ready supply of world-class technology (Luo et al., 2011). Because well-established open global markets in applied technology, advanced machinery, and equipment, the latest instruments, and sophisticated materials and components were not present in the early years of the market leaders' growth, these precedents are much more path dependent and resource constrained. Also, the modularity of technologies and standardization of technical norms across countries promote EEEs' composition. Finally, composition is also nourished by the willingness of advanced market multinationals to sell (e.g., via acquisition or licensing) or share (e.g., via a joint venture) their technology, brands, or other assets. Figure 3 schematically summarizes the CBV framework.

## HETEROGENEITY IN AND CONSTRAINTS ON COMPOSITION

### Heterogeneity in Composition

A successful compositional process depends importantly on a set of requirements that are by no means achieved by all EEEs or SMEs. First, their leaders need to possess a guiding strategic vision. Second, they have to command the loyalty and respect necessary for the members of firms to be willing to adjust collectively to new tasks and projects emanating from top management and informed by the vision. This flexibility relies much more on an organizational culture of commitment and team working than on formal organizational procedures. Third, leaders are highly networked with external providers of requisite resources and information, and they are skilled in managing the relationship involved. Fourth, the organization has appropriate absorptive capacity to receive and process new information concerning market opportunities, technical developments, and potential partners. This configuration of qualities bears comparison with Schumpeter's view that entrepreneurship, vision, and style are the factors enabling firms to realize new strategic opportunities (Backhaus, 2003).

Not all EEEs undertake a composition-based strategy nor are they equally successful when they do. Since composition itself is a firm-specific capability, not all firms can do well in enforcing compositional offering and compositional competition. Equally true, firms vary in their strategic intent and resource endowment. Niche players equipped with new technologies and innovation skills may instigate operations with a focused differentiation strategy in lieu of composition-based strategy. Figure 4 distinguishes four categories of firm: (1) *original innovator*, (2) *integrated star*, (3) *incompetent starter*, and (4) *expeditious composer*, based on

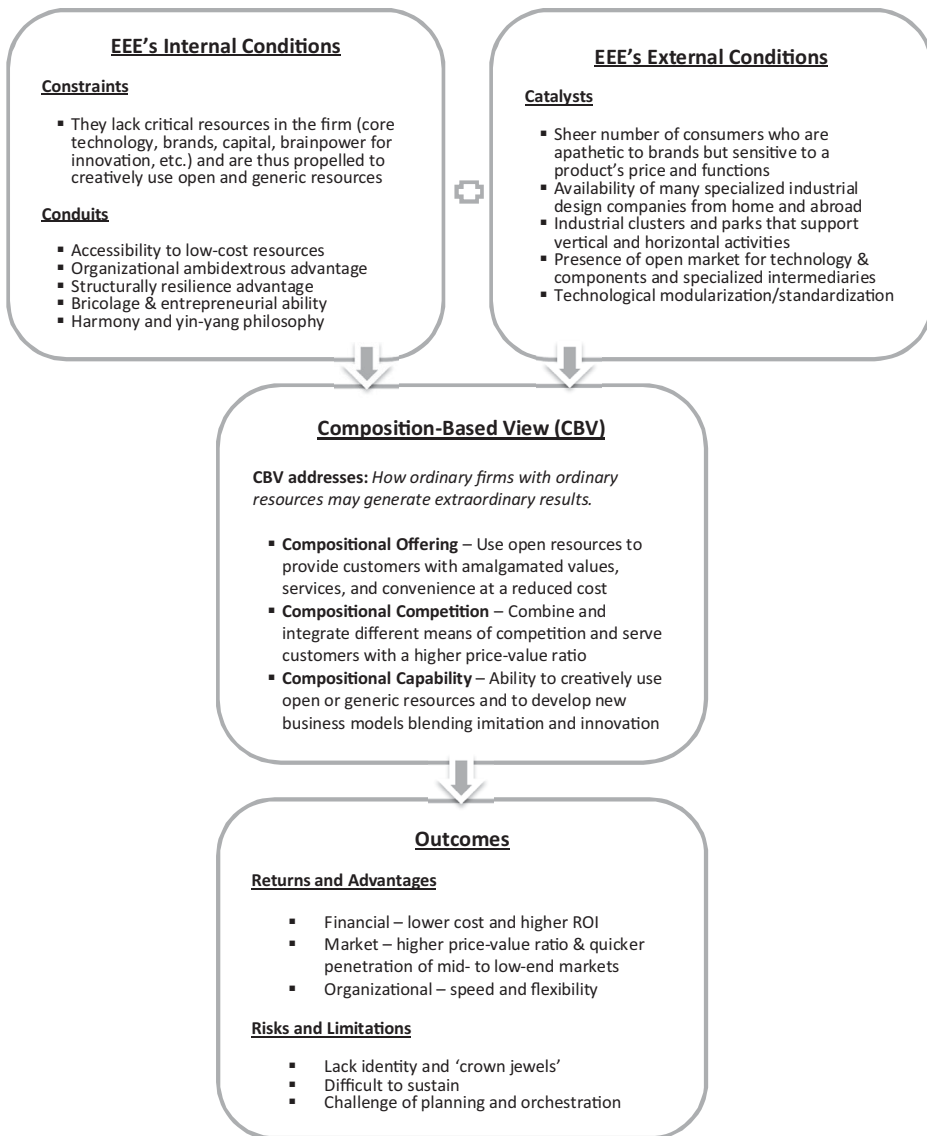


Figure 3. Composition-based view of firm growth

the matrix of composition-based advantage (horizontal axis) and resource-based advantage (vertical axis),

EEEs, defined as original innovators in Figure 4, focus more on resource-based advantages (e.g., product differentiation, brand awareness, and technological innovation) and less on compositional advantages. This category may also fit some niche-based high-tech startups that embark on business ventures with newly innovated technologies or products. Many high-tech development zones in the East coast provinces of China have been established, intending to incubate the development of such businesses. EEEs, characterized as integrated stars in Figure 4,

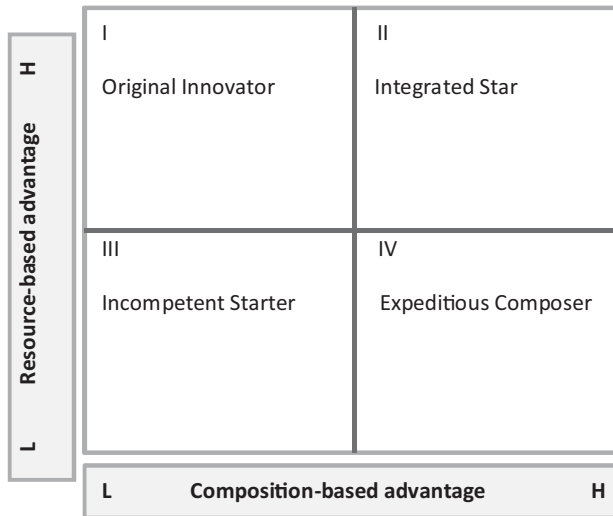


Figure 4. Types of firms along composition- and resource-based advantages

on the other hand, excel in simultaneously carrying on and benefitting from both resource-based and composition-based strategies. Numerous companies from South Korea and Taiwan (e.g., Hyundai, Acer, HTC, Giant, and Merida) exemplify this category, with current operations leveraging both in-house innovation and customer-focused composition and integration. A number of firms from mainland China, such as SANY, Huawei, Haier, Lenovo, TCL, Tencent, and Midea, have also emerged as integrated stars as they mature in building original innovation capabilities while remaining active and effective in continuing composition-based strategies.

EEEs, identified as incompetent starters in Figure 4, are not proficient in achieving either resource-based or composition-based advantages. Many newly established SMEs lack resources to pursue resource-based advantages while lacking the organizational experience to conduct composition-based strategies. New firms without distinctive resources may succeed if they are well prepared in formulating and implementing a composition-based business model, but are likely to fail if they do not follow this trajectory. Last, EEEs, defined as expeditious composers in Figure 4, are those that are highly experienced and successful in identifying, establishing, and exploiting composition-based advantages, and yet are indolent in or incapable of seeking resource-based advantages. Expeditious composers are a class of firms that best fit SMEs with ordinary resources but skills in creatively using open resources. They are ‘composers’ because of their proactive nature and competence in performing composition-based practices. Yet they are ‘expeditious’ because they are motivated to catch up, hoping to become more competitive and resourceful as they grow.

The four types of EEEs may evolve over time. Incompetent starters may choose to become expeditious composers in order to mitigate the mortality risk due to



their shortage in both resource-based and composition-based advantages. For incompetent starters that are even weaker than established ordinary firms, moving toward composition-based strategies is much more viable than moving toward resource-based methods. After accumulating experience, resources, and capabilities for a certain number of years, expeditious composers need to think ahead to discern a new generational shift and to revamp existing strategies so that they can avoid innate drawbacks of composition-based strategies. A workable growth path for expeditious composers is to become integrated stars that are ambidextrous in building, cherishing, and leveraging new distinctive resources and capabilities that enable them to differentiate and in fully capitalizing on open resources outside the firm and existing capabilities inside the firm. Integrated stars will not see resource-based and composition-based advantages as adversarial or substitutive, but rather as complementary or supplementary. They excel in building new resource-based advantages and at the same time creatively utilizing generic and open resources. Open innovation often features integrated stars. Finally, an original innovator may stay and grow as is without changing its strategic identity if its niche position and competition strength lasts long or if it makes persistent efforts in upgrading capabilities. This is feasible when an original innovator is a focused player in a niche market where there are few rivals that share high market commonality and high resource similarity with this original innovator. However, if this original innovator begins to diversify, or when the niche market becomes very competitive amid many new entrants, the firm may opt for evolution to a position as an integrated star, acting in a more balanced way by simultaneously garnering both resource-based and composition-based trajectories.

### **Constraints on Composition**

A firm's key competence in using the composition approach lies in its ability to creatively make use of and combine ordinary resources inside and outside the firm. When other firms follow this model and are able to do the same, composition-based competitive advantages will dissipate or disappear. The first limitation of the composition approach lies in the difficulty in building the firm's identity and image. Firms of this kind serve pragmatic consumers who are indifferent to brands but mindful of product offerings. It is also not the firm's strategic intent to invest in branding and advertising. As a result, these firms demonstrate a shortfall in brand awareness and customer loyalty, facing competitive pressures from new entrants that use a similar composition strategy and from substituting products or services offered by similar rivals. Product life cycles under composition-based competition are likely to be shorter than those under differentiation-oriented competition. This limitation is compounded by the lack of 'crown jewels' such as patented technologies, corporate credibility, and organizational reputation.

Coordination costs and difficulties of orchestration may undermine composition-based success. Inherently, composition mandates a myriad of interunit

synchronizations within the firm and requires interfirm coordination with outsiders residing in a related upstream and downstream vertical chain, as well as specialized intermediaries and service providers from supporting industries. In organizational terms, composition pushes a firm toward the edge of chaos, which is an optimal adaptive position if it can be managed (Bingham & Eisenhardt, 2014). Unless the firm excels in such abilities as networking, intelligence, coordination, and integration, it would be an onerous task to establish compositional capability and undertake compositional offerings and compositional competition in all industries. Generally, organizational infrastructure for an effective composition system requires seamless support from pragmatic leadership, viable planning, all-embracing culture, and incentive systems, among other features. Further, composition-based strategies necessitate an architecture for reconciliation consisting of structural mechanisms (e.g., special task forces and cross-unit teams), administrative mechanisms (e.g., output control and reward system), and informational mechanisms (e.g., intelligence bank and market analysis). As a firm expands and diversifies, it becomes increasingly difficult to sustain a compositional approach.

Composition-based strategies also cause the firm to depend on external resources. There has been continuous improvement in the establishment of open markets in technologies, intermediary products, services, human resources, information, and the like. However, these open markets are not yet perfect, with much still to be improved. This implies not only that there will be search costs for firms to access these markets, but there will also be vulnerability and uncertainty for participating firms. Firms that depend more on such open markets are deemed to encounter a higher level of uncertainty and vulnerability, *ceteris paribus*. Aside from open markets, networks are another channel for acquiring open or generic resources outside the firm. Still, such socially embedded networks are not without costs, constraints, and limitations (Portes, 1998). When they do not have strong power or control in network exchanges, firms suffer from unintended consequences stemming from resource dependency (Pfeffer & Salancik, 1978). In sum, composition-based strategies are limited in their ability to generate truly sustained and enduring competitive advantages or economic rents. In the early stages of becoming established, firms need to evolve in adopting composition-based strategies, transitioning from the strong reliance on external open resources when facing the liabilities of newness and smallness and moving toward deliberate actions that solidify their own capability base in the later stages, when they have become mature and resourceful. Remaining in the composition model without moving forward in building capability will not help firms to grow sustainably.

Some formerly well-known Chinese companies such as Jianlibao and Kelon, which were once China's leading players in the beverage and white goods industries, respectively, failed or died off due largely to the above reasons. However, more companies realize the need for continuous growth and evolution from the composition-driven model. Mindray, China's leading healthcare equipment manufacturer, used composition as the dominant strategy in its catch-up phase of

development (1991–2000), taking advantage of cheap labor, standard technologies, and key components purchased from related open markets that allowed prices for its products to be set 50% lower than Western brands. Their high price-value ratio wooed foreign hospitals that were looking for low-priced equipment, and Mindray sacrificed profit margins in order to secure orders. However, as it began to compete more fiercely against Western leviathans such as GE, Siemens, and Philips, and when it began to vie for mid-end or above-mid-end markets in advanced countries, it had no choice but to build its own critical capabilities. It now introduces seven to ten new products every year, mostly for mid-tier foreign markets, including Europe and North America. To improve its product quality and image, the company spends approximately 10% of its annual sales on global R&D. This work is supported by over 1600 scientists and research fellows, as well as nine research centers – including two in the United States and one in Sweden. The higher premium received from mid-tier to high-end markets offset the company's new R&D costs, enabling the firm to maintain a price-value ratio similar to what it had been previously. Yet it still holds a 20%–30% price advantage, with quality of products comparable to that of its global rivals. At the same time, Mindray maintains its traditional strengths such as speed and flexibility. While international giants need several days to react to a local hospital's needs, Mindray often does so within a day or two.

## DISCUSSION

Clearly, there is growing pursuit of fresh ideas and new perspectives for management, a pursuit that reaches out temporally, geographically, and ideologically (Chen & Miller, 2010; Daft & Lewin, 1993; Tsui, 2006). One of the most important trends of the current era is the rise of emerging economies. After centuries of Western economic dominance, emerging economies have begun to challenge global industry leadership positions, despite having an essentially unpretentious beginning. The battle between established global players and EEEs has been intensifying as the latter enter global competition at an accelerating pace. Creating a powerful emerging market strategy has moved to the top of the growth agendas of many Western companies. Understanding their local rivals' strategies and business models, such as the CBV introduced in this article, can help Western companies invest more shrewdly and remain ahead of the competition rather than following others into the more challenging battlefields.

Meanwhile, EEEs are aggressively acquiring foreign companies in order to expand their reach, to acquire brands and technological expertise, and to build scale. These global challengers are entering the new decade from a position of strength. They have developed innovative business models and better understand emerging markets, and they now serve as the growth engines of the global economy. Because they are financially fit, they can take advantage of opportunities to buy attractive assets and compete against more established competitors that are still in recovery mode. Increasingly, EEEs will be engaged in battles with companies from

developed markets. This includes competition for emerging customer segments. According to *Forbes* (December 21, 2011), by 2020, the middle class in emerging markets will make up 30% of the global population. Many EEEs have already built successful businesses serving these consumers, but they need to fortify their positions. While continuing to take advantage of their knowledge of these markets in order to develop compelling products and services that represent quality and value, EEEs also need to move beyond advantages that are based only on cost and location. Although the diversity and dynamism of different emerging economies defy any one-size-fits-all approach, composition-based business strategies already used by some visionary EEEs seem to promote a desire to seize better growth opportunities and, thereby, to increase the likelihood of achieving competitive success against their Western rivals.

The CBV is better adjusted to the contemporary situation in which many resources are now available on the market and the basis of competitiveness by EEEs has changed accordingly. The CBV enhances and informs the ways in which ordinary firms, such as those in emerging economies, may possibly perform well with ordinary resources. The CBV changes the emphasis from developing and leveraging distinctive resources to distinctively using generic and open resources that are available. It is essentially a compensational remedy and a catch-up strategy for companies in their efforts to compete against resourceful and powerful rivals that are equipped with critical capabilities and strategic assets. Composition is a deliberate, intelligent, and pragmatic approach, offsetting EEEs' competitive weaknesses, yet requiring savvy organizational skills and managerial innovation. It suits EEEs particularly well because of evolving internal and external conditions that favor the inputs (e.g., open markets for inputs, presence of specialized intermediaries, and improved supporting industries), process (e.g., hybridization, modularization, organizational resilience, ambidextrous orientation, and bricolage experience), and outputs (e.g., cost innovation, price-value ratio, customer responsiveness, and vast customer pool) necessary for composition-based success.

Nonetheless, the composition model is limited by the difficulty in generating sustained competitive advantage and by the vulnerability to the dependence on external resources. This model can work well for EEEs (and SMEs) as they strive to catch up with international competition and as they use composition to compensate for their disadvantages. It cannot, however, guarantee continued growth after these firms pass the imitative or catch-up stages and navigate their business journey onto the larger and more complex global stage. Thus, composition-based strategy may pose a positive but curvilinear (incrementally diminishing) effect on producing extraordinary results.

In many respects, management theories are a defining invention of Western scholarship in areas such as organization, business, and economics. But like much else in the multipolar or plural world, these are no longer the preserve of the West. The rapidly growing emerging economies are producing a large number of enterprises for which processes, patterns, and strategies of growth are often

dissimilar to their counterparts in the West. As they continue to acquire knowledge and learn lessons from Western companies, EEEs have been deliberately pursuing their own distinctive paths, given the unique internal and external imperatives that they face. This article presents the concept of the CBV not as a challenge to or criticism of Western management and organization theories, but rather as a significant opportunity – a new idea, new concept, and new perspective – to aid in understanding fast-growing EEEs and in recognizing implications that extend to many ordinary firms in the developed world as well.

### **Future Research**

The CBV poses a number of research issues and even puzzles for management scholars. Some of these issues may challenge existing theories in strategic management. First, future research needs to address how composition-based strategy evolves. As they grow and become more resourceful, firms may lessen the degree of composition-based competition and intensify the level of resource-based competition or, alternatively, shift from differentiation to composition as the industry's life cycle reaches its maturity and decline stages. Because composition-based strategy can only create a temporary competitive advantage and is significantly affected by market conditions, the evolving property and propensity of this strategy is a core element of the CBV in relation to the firm's long-term growth. A second intriguing area for future research lies in the underlying processes and systems by which compositional capabilities are established. We have outlined a few key process areas but did not detail the actual processes that constitute the reconciliation or synchronization architecture for composition, such as organizational design, management systems, autonomy delegation, interunit sharing, IT systems, corporate culture, internal control mechanisms, and team management. These merit inquiry regarding how the firm builds its administrative, organizational, informational, and managerial systems to support the formulation and implementation of a composition-based strategy.

Future research should also probe how composition-based strategy changes along with size, diversification, and developmental stage. Compositional strategy works largely at the business level to win competition; therefore, a large or diversified EEE may still use this strategy in some, if not all, of its strategic business units. Further, highly diversified firms may still be able to profit from sharing some resources and capabilities that underlie compositional offering or compositional capability. Core technologies and components can be shared across different strategic business units in the case of related diversification, and organizing and managing capabilities can be shared in the case of unrelated diversification. Managing such 'boundaryless' sharing and processes, whether technological, operational, or organizational, is Jack Welch's major legacy to GE (Bartlett & Wozny, 1999) and among the chief notions of the CBV. Nevertheless, much needs to be clarified concerning the microprocesses of composition and integration within a given business unit and between different

business units of a diversified firm. Future efforts should also specify what kind of organizational changes, preparation, and transformation the firm should undertake as it evolves and grows, shifting from a composition-based strategy to a resource-based strategy.

Cultural and institutional factors appear to be significant for composition-based strategy in China and may help it to be sustained for some time as firms grow. This raises the further research question as to the extent compositional strategy and process are favored by certain economic, institutional, and cultural contexts. In China, a relatively generous supply of labor and capital combined with a limited amount of fundamental innovation favors a composition-based strategy aimed at mass markets. The combination of a long tradition of official support for business development with the direct benefits that local authorities and communities gain from successful enterprises encourages a supportive institutional environment, albeit one which entrepreneurs have to manage carefully. The significance granted to relationships and their management within Chinese culture grants normality to the securing and combining of resources adaptively through processes of internal and external networking. International comparative research is required to examine the extent to which the incidence of a compositional approach, and the extent to which it is successful, is context specific. In other words, what kind of institutional and cultural environment fit a compositional strategy particularly well?

As noted above, composition-based strategy works at the business level; therefore, a highly diversified firm will encounter greater complexity in coordination, sharing, and integration if some SBUs use composition-based strategy and others do not. Even within a SBU, synchronization for composition is not easy when this unit serves different market segments. Geographically, compositional offering and compositional competition may vary from market to market, and this variance will be even greater when the firm expands internationally. Hence, it is important to investigate how composition-based strategy should be properly aligned with business diversity, market diversity, and geographic diversity.

## CONCLUSION

Our understanding of the CBV will be fuller and clearer if future studies can substantiate short- and long-term outcomes of compositional strategy. These outcomes may be multifaceted, entailing financial and market results as well as organizational development consequences. Further, composition may possibly generate some negative side effects such as vulnerability to external dependence and the deterrence of original innovation. Composition may cause some unintended perceived bias toward the firm's product image and corporate reputation in the minds of consumers. It could also fortify operational complexity and instability as the firm experiments with different methods of compositional offering or compositional competition. Future research on these unintended consequences will not only

consummate the CBV but help find solutions and remedies to overcome these problems.

## NOTES

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## APPENDIX 1

### ABOUT THE RESEARCH

The genesis of this research was four years ago when we began investigating what was unique about Chinese firms, especially privately owned ones, in terms of their growth strategies competing domestically, regionally, and globally. Despite many years of working, research, and consulting experience in China, we were still somewhat surprised to find that many local successful companies, large or small, had been able to grow by creatively combining, improvising, and integrating resources available to them, especially those from global open markets. To understand how companies undertake this creative improvisation process in different industries and regions of China, we conducted more than 300 in-depth interviews over the past four years with senior executives in 130 companies in Guangzhou, Shenzhen, Zhuhai, Foshan, Zhongshan, Dongguan, and Shanghai. The interviews were both open- and closed-ended, with a focus on their unique competitive and growth strategies. We studied organizations at different growth stages including nascent businesses, young companies seeking to expand, and established companies searching for new growth. In an effort to further understand how the composition process was performed at the operational level, we also visited or interviewed two dozen managers at R&D, procurement, and manufacturing units from those companies that appeared to be exemplary in compositional approaches. We further reviewed relevant research articles, consulting reports, and published case studies concerning similar lessons and practices of firms in other emerging markets, particularly those from South Korea, Brazil, India, Chile, Argentina, Mexico, and Taiwan. From the interviews conducted and the data collected in our own research and through the review of the related studies by others, we observed a unique and remarkable pattern that is largely different from the RBV-based logic regarding the growth and competitive strategy. This spurred us to develop the CBV presented in this article.

## SUPPLEMENTARY MATERIAL

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