

## Extraordinary Survival from Ordinary Resources – How So?

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### INTRODUCTION

The ‘Composition-Based View of Firm Growth’ (CBV) is an exciting new view of the theory of the firm ‘without the benefit of resource advantages, proprietary technology, or market power’ (Luo & Child, 2015: 379). It complements existing theories – RBV, KBV, absorptive capacity, and resource management view – to create novel insights about the management of the firm (see Table 1 for detailed comparisons). Further and perhaps more importantly, Luo and Child (2015) extend the domain of application to the firm with ordinary resources to emerging economies enterprises (EEE) and small- and medium-sized enterprises (SME) with particular emphasis upon China. In short, CBV is a new view with significant application. I offer a few comments on the theory, its argumentative support, and the applications. My intent in this critique is to strengthen the CBV and end with a suggested next best research agenda for its further development.

In contrast to existing theories of the firm where the firm has some comparative advantage, such as unique resources in RBV or knowledge in KBV, the Compositional-Based View considers the firm which is ‘without the benefit of resource advantages, proprietary technology, or market power’ (Luo & Child, 2015: 379). The question is then how can a firm with no obvious advantages grow or even survive? What is its competitive advantage, if only temporary? With only ordinary resources, how can it maneuver? At first glance, the firm will be driven out and die. But Luo and Child (2015) offer a compelling argument for how the firm will not be driven out and will survive.

### CBV – THE THEORY

The firm is ‘without the benefit of resource advantages, proprietary technology, or market power’ (Luo & Child, 2015: 379). This is the firm and its resources – or

lack thereof. It is the basis of the CBV as a theory. Luo and Child then make a compelling argument that the firm can gain temporary advantage with these conduits: accessibility to low cost resources, organizational ambidexterity advantage, structural resilience, bricolage, entrepreneurial ability, harmony, and yin-yang philosophy. In Figure 3, they marry these internal conditions with the external conditions of consumers and technological possibilities in an open market to build CBV which is built upon: open resources, managerial combination, and creativity to obtain advantages. This is a short-hand explanation of the CBV theory; the logic is explained in more detail in the text under the headings: What is the Compositional-Based View, The Compositional Strategy, The Compositional Process, and Why CBV Suits EEES. In contrast to other theories of the firm, it does not address why firms exist, but rather how a firm can continue to exist. It is a 'deliberate, intelligent, pragmatic approach' (Luo & Child, 2015: 414). At its core, CBV is a managerial theory of how to gain advantage, if only temporarily.

CBV is a managerial theory of how to compose the firm. According to Webster, composition is defined as: the way in which something is put together or arranged. To compose is to put together – perhaps creatively, but surely with competence. The 'something' is these ordinary resources. Composition is another word for management. Perhaps Kogut and Zander's combination theory of the firm is closest to CBV. The combination theory of the firm is about know-how, like procedural knowledge is a description of what defines current practice inside a firm. These practices may consist of 'how to organize factories, set transfer prices, or establish divisional and functional lines of authority and accountability' (Kogut & Zander, 1992: 387). The commonality between CBV and the combination view is that both are about know-how or procedural knowledge of how to manage. The difference is subtle but important. Combination is taking the elements and putting them together as a Lego building exercise with fixed bricks. Kogut and Zander are assuming the elements or bricks are not the ordinary as the CBV takes as the basis for its theory. CBV is that and more: it is putting ordinary resources or malleable bricks together in a flexible and creative pattern. Both are innovative but the domain of innovation for CBV is broader and more flexible where the combination view puts know elements together in new ways.

The conduits – accessibility to low cost resources, organizational ambidexterity advantage, structural resilience, bricolage, entrepreneurial ability, harmony, and yin-yang philosophy – are part of the CBV theory. At the same time, these conduits are not new or even illustrative of the creativity of composition. Take any one of these conduits and each has been argued as a solution to the firm's challenges. Low cost applies to all firms; ambidexterity has been proposed as a solution to complex coordination problems in large firms as well as SMEs (Burton, Obel, & Hankansson, 2015); entrepreneurial ability is clearly needed for EEES, but not only there; and culture is important, not only in China where the harmony and yin-yang philosophies exist. Rather, these conduits seem to be universal even though they are argued to be appropriate for EEES. But these do not seem to be the creative

processes that CBV rests upon. There must be more to learn and understand about CBV if it is to realize the promise. I will comment more below.

### **GROWTH – IS IT NEEDED FOR THE THEORY?**

I submit that CBV is more about survival than growth; CBV is a survival game against the existing constraints and competitors for the firm where the alternatives must include the flexibility to go beyond the usual choices. Luo and Child (2015) emphasize that it is a temporary competitive advantage where success is fleeting. This is survival, not growth. Survival is a more fundamental concept and more important to managers. Of course, growth is nice in fact, but not necessary for the theory. Rather CBV is the putting together of something to survive to play again another day. This makes the CBV theory more general and more powerful than simply a theory of growth.

CBV is about survival with possible growth in a domain that is not well researched or understood. The firm is ‘without the benefit of resource advantages, proprietary technology, or market power’ (Luo & Child, 2015: 379). These are the emerging economy enterprises, EEEs, particularly in China. This view is too limited. Firms without these advantages are everywhere – not only China. The emerging economies have many such firms. But so do emerged economies. The most general situation is survival in a competitive environment. Small restaurants, whether in emerging or emerged economies, have few resources, no technological advantage, nor market power; how do they succeed? They must add something, some edge: long hours and low pay, a good location, a special dish, a jolly laugh; it can be a small edge. Yet, most do not survive. These elements are not enough, either individually or just added together. How can the restaurant survive? It is what we call composition of something that includes what others cannot provide to the customer for the moment. This situation is the usual for most firms in the world, not just EEEs.

### **CBV – THE SUPPORTING LOGIC AND METHODOLOGY**

Luo and Child (2015) use an inductive theoretic reasoning approach to theory building. It is most appropriate for these first steps. They use specific field observations and case studies to build the theory. Yet, a number of the supporting field observations and case studies depart widely from the basic tenets of ordinary resources. In short, one cannot use examples which violate the domain of relevancy to build a theory about the domain. Let me suggest that the Sun Microsystems has more than ordinary resources. I am not familiar with many of the Chinese examples, but from the description these firms are using more than ordinary resources. Haier is a well-known company that does not meet the ordinary resources criterion. My critique is simple. These examples do not support the CBV theory. Rather they distract and can lead the reader to infer that the empirical base for the theory

and theory building are loosely related to the theoretical propositions – and not convincing. The next steps in the empirical support must speak to the theory and its basic tenets.

### **THE RESEARCH AGENDA – NEXT BEST STEPS**

The domain of CBV is the firm ‘without the benefit of resource advantages, proprietary technology, or market power’ (Luo & Child, 2015: 379). Where do we find these firms – everywhere but of particular interest is the EEE firm. One might suggest, first to China and then the world including other EEEs and then to more developed countries. The firm with ordinary resources is the unit of analysis, not the firm with resources or the country. I agree that ‘an intriguing area for future research lies in the underlying processes and systems by which compositional capabilities are established’ (Luo & Child, 2015: 405).

How do we begin this research? It seems quite simple to identify a few surviving firms and then study them as case studies in the fashion of Yin (1994) and Eisenhardt and Graebner (2007), or ethnographies in the tradition of anthropology. What do we look for and what do we hope to find? First, we need a procedural description of what the firm actually does – a log of what happens. Luo and Child (2015: 405) state ‘an intriguing area for future research lies in the underlying processes and systems by which compositional capabilities are established’. But the conduits in Figure 3 are not our focus; rather we need more procedural explanations of how the firm manages with only ordinary resources. Second, we are hoping to find insights that help explain survival. These insights may well be nuanced on what we know about good management. But these insights should not be constrained to fit into our traditional notions of what is good management. Third, with these insights, we can specify better what we mean by CBV with a deeper understanding of the procedures of CBV. Fourth, we can then develop hypotheses which are in complement or in contrast to those of other theories. Fifth, we may be able to specify the data we need to test our hypotheses and further refine the theory. In short, we are searching for the underlying and underspecified managerial procedures which permit these firms to survive.

Appropriately, Luo and Child (2015) began with a sample of firms which they then analyzed and used the inductive theoretic reasoning approach to support CBV. This is most appropriate for theory building. My critique suggests that they wandered away from the basic domain of firms without resources in their analysis and the implications for theory building. In short, the method is fine, but the sampling could be more germane to the theory.

### **CONCLUSION**

CBV is an exciting new theory of the firm – not why the firm exists, but how to manage a firm with only ordinary resources. This is a new domain for the theory of

the firm which is important for theory and with direct application for practice. The next best steps are to investigate firms with only ordinary resources to understand how they manage and why they continue to survive. It is an exciting research agenda.

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