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Li, Xin

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Xin Li,

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How emerging market resource-poor firms compete and outcompete advanced country resource-rich rivals

An asymmetry reversing theory

Xin Li

Copenhagen Business School, Frederiksberg, Denmark

Emerging
market
resource-poor
firms

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Abstract

Purpose – The purpose of this paper is to comment on Professor Ming-Jer Chen’s recent publication titled “Competitive dynamics: Eastern roots, Western growth” and present an asymmetry reversing perspective on the competitive dynamics between two nonobvious, invisible or indirect competitors, namely, how emerging market resource-poor firms compete and outcompete advanced country resource-rich rivals.

Design/methodology/approach – The author first identifies an important neglect in Professor Chen’s scholarship on competitive dynamics, i.e., the neglect of the ubiquity of the less visible competition between two actors who initially would not be considered as competitors. Then, the author proposes an asymmetry reversing theory (ART) of competitive dynamics to redress this neglect. The theory is presented in two parts. The first part describes the competitive dynamics between the two actors as a three-stage process of reversing the asymmetry in resource possession and market position between the resource-poor firm and its resource-rich rivals. The second part explains the key success factors for the resource-poor firm to go through each of the three stages.

Findings – The growth process of the resource-poor firm can be broadly divided into three stages: surviving, catching-up, and outcompeting. For ambitious yet pragmatic resource-poor firms, in the surviving stage, they often (have to) accept the asymmetry between themselves and their resource-rich rivals in terms of resource possession and market position, and try to avoid any direct competition with the strong incumbents. They often tactically appear to pursue different paths of development from those of the strong incumbents by focusing on particular product categories and market segments. Doing so allows the resource-poor firms to win times and spaces for non-interrupted growth. Once they have accumulated sufficient resources and market experiences, they start to reduce the asymmetry between themselves and their better-endowed rivals by entering the similar or same product categories and market segments. To effectively catch up and outcompete the incumbents, they often differentiate themselves from their rivals by offering cheaper products or services, adding new features to their products, providing extra services to their customers, inventing new business models, etc.

Research limitations/implications – One limitation of this paper is that the ART framework has so far been built on anecdotal evidences. It needs to be tested by empirical studies and refined further in the future. Another limitation is that the proposed theory is based on competitive dynamics between emerging market resource-poor firms and advanced country resource-rich firms. It needs to be tested whether this theory has applicability to any other firms.

Originality/value – This paper fills an important research gap in the competitive dynamics literature by proposing an asymmetry reversing theory of competitive dynamics between a weak latecomer and a strong incumbent in a competitive field.

Keywords Asymmetry, Dynamics, Competitive, Latecomer, Resource-poor, Reversing

Paper type Viewpoint

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Introduction

Over the past three decades, Professor Ming-Jer Chen (2016) has made significant contributions to the growth of competitive dynamics research that has “evolved from a phenomenon to a formidable research topic and management subfield” (p. 2). In a recent article titled “Competitive dynamics: Eastern roots, Western growth” that reflects his research journey, Chen (2016) offers an excellent “review of competitive dynamics research, its significance, theoretical underpinnings, a few key recent findings and advancements” (p. 2).

While Chen’s scholarship on competitive dynamics has expanded into a comprehensive research program, he has neglected two important types of competitive dynamics. One, Chen has exclusively focused on the action responses and therefore neglected the significance of word responses that are “language issued by a firm in public forums and in response to a rival’s attack” (Gao *et al.*, 2017). The other, Chen has exclusively focused the obvious, visible, or direct rivals and therefore neglected the ubiquity of the less obvious, less visible, and less direct competition between two actors who would not be considered initially as competitors.

In response to the neglect of word responses, Gao *et al.* (2017, p. 129) “build a framework to theorize why firms sometimes use actions, sometimes use words, and sometimes use both in response to a rival’s attack” with the aim of developing “a more complete understanding of competitive engagement among rival firms.” While Gao *et al.*’s work represents an initial effort to address the word vs action responses issue, there remain many works to be done in this field. Due to the space limit and personal interest, I will not discuss it any further but focus on the second neglect in Chen’s scholarship on competitive dynamics.

To redress the second neglect of the less visible competition, here, I propose an asymmetry reversing perspective on understanding how resource-poor firms compete and outcompete resource-rich rivals (cf. Li, 2016). While the proposed theory is derived from a particular context, i.e., competition between emerging market firms and advanced country firms, it has the potential to become a generic process model of competitive dynamics between a strong incumbent in a field and a weak latecomer who initially is not even considered as a potential competitor by the former, due to the huge distance or asymmetry between the two in terms of resource possession and market position or power.

In what follows, I first propose the asymmetry reversing theory of competitive dynamics, and then explain the firm-specific factors that enable the resource-poor firm to successfully reduce and reverse the asymmetry in terms of resource possession and market position between itself and the resource-rich rivals.

An asymmetry reversing theory of competitive dynamics

Understanding the competitive dynamics between a resource-poor firm and a resource-rich incumbent starts with the recognition of the huge distance or asymmetry between the resource-poor firm and its resource-rich incumbents in terms of resource possession and market position or power. The growth process of the resource-poor firm can be broadly divided into three stages: surviving, catching-up, and outcompeting. Not all resource-poor firms can go through all of the three stages. If one does, the third stage leads to a reversed asymmetry between the initially resource-poor firm, now being relatively more resource-rich and market-powerful, and its outcompeted rival. The whole process can be seen as one of asymmetry reversing. To effectively and successfully reverse the asymmetry, the resource-poor firm needs to adopt different strategies at different stages.

In the surviving stage, the resource-poor firm often has to accept the asymmetry and tries to avoid any direct competition with the strong incumbents. Tactically, it can (appear to) pursue different path of development from those of the resource-rich incumbents. Doing so can prevent the resource-poor firm from attracting the attentions of the strong incumbents and therefore wins the resource-poor firm time and space for possible non-interrupted growth.

It is a way of self-protection by avoiding provocation and competition. What the resource-poor firm can do in this stage is to deliberately differentiate itself from the strong incumbents in terms of resource accumulation and customer acquisition. It often needs to do or appear to do what the strong incumbents are not interested in doing, for example, serving the customers at the bottom of the pyramid (Prahalad, 2004). Such choice can be seen as a special case of what Porter (1980) calls the generic strategy of focus, as it is also supported by cost leadership or differentiation strategy. Such a survival or retention-oriented[1] asymmetry accepting strategy makes the resource-poor firm a largely neglected yet survivable peripheral player.

Having survived, the focal firm enters into the catching-up stage in which it needs no longer to accept but to reduce the asymmetry between itself and the better-endowed incumbents. The overarching goal is to catch up with the incumbents in both resource possession and market position. Departure from prior strategy of appearing to be a peripheral actor, what the focal firm now needs to do is gradually gain recognition of itself being a legitimate and competitive player in the industry's mainstream. To legitimize itself as a mainstream player, the focal firm needs to enter into the similar or same product categories or market segments of the incumbents, and to make itself competitive, the recognition-oriented asymmetry reducing strategy needs to be implemented in a way that differentiates the focal firm from the incumbents. The focal firm can do so by many ways, such as offering similar or same products or services at lower prices, delivering its products or services with a faster speed, providing extra services to their customers, adding new features to their products, etc. In terms of Porter's (1980) generic strategies, the focal firm at this stage primarily follows cost leadership strategy but also partially and gradually embraces differentiation strategy.

After having caught up with or when getting close to its target competitor, the focal firm, now being resource-rich, needs to switch from the recognition-oriented asymmetry reducing strategy to reputation-oriented asymmetry creating strategy. Here in the outcompeting stage, it needs to turn itself into a respectable actor in the industry by pursuing path-breaking or path-creating innovations of different kinds, such as new products, new processes, new marketing methods, and new organizational methods in business practices, workplace organization or external relations (OECD/Eurostat, 2005). The generic strategy the focal firm adopts is primarily differentiation without completely deemphasizing low cost advantage. Table I shows the correspondence between the growth stage, behavior orientation, and generic strategy.

Key success factors for asymmetry reversing

The key success factors for each of the three stages of the asymmetry reversing process are different.

In the surviving stage, the key to success for the resource-poor firm is to identify unmet demands in the market and to produce suitable supplies to satisfy those market demands.

In large developing countries such as China and India, there are abundant unmet primitive demands, i.e., demands for manufactured goods and services to be consumed for the first time. For customers with primitive demands, low price is more important than high quality. For those customers who live in a society's base of the pyramid, they are especially price sensitive due to their tight budget constraints. Facing such a situation, what the startup resource-poor firms should do is to design and produce products or services with high price-value ratio (Li, 2016; Luo and Child, 2015). For example, Huawei, a Chinese resource-poor startup in late 1980s, faced the situation that the telecommunication markets in urban cities in China were largely occupied by the Sino-foreign joint ventures and the telecom bureaus of urban cities would hardly consider doing businesses with unknown private companies. Knowing that it could not afford competition with resource-rich incumbents who focused on China's urban markets, Huawei looked for potential customers

Growth stage	Competitive dynamics	Behavior orientation	Generic strategy	Key success factors	Cases
Survival	Asymmetry-accepting	Retention-oriented	The focus strategy, supported by cost leadership or differentiation	Identifying unmet market demands, and then offering suitable products or services	Huawei produced low cost switchboard for Chinese rural telecom market Haier designed small refrigerators for American college dormitories
Catching-up	Asymmetry-reducing	Recognition-oriented	Primarily cost leadership strategy, partially and gradually differentiation	Offering products or services that have high value-cost ratio, and delivering them in fast speed	Huawei and Haier use FDIs to springboard in upgrading their skills and capabilities
Outcompeting	Asymmetry-creation	Reputation-oriented	Primarily differentiation strategy without completely deemphasizing low cost advantage	Creating products or services that have high qualities with reasonable prices	Huawei's commitment to R&D and product innovation Haier's radical organizational innovation

Table I.

The competitive dynamics, behavior orientation, generic strategy, and key success factors in each stage of the growth of the resource-poor firm

in the country's vast rural area. By offering a small capacity switchboard with high value-price ratio, Huawei eventually succeeded in breaking into the telecom equipment market first in the countryside. With increasing demand for its products, Huawei survived and accumulated knowledge and capital for its next stage of growth (Cao and Li, 2014).

In contrast, in developed countries, there are little if any such unmet primitive demands. Yet, there are still unmet market demands, the identification of which requires market intelligence and entrepreneurial alertness. For emerging market latecomer firms to enter into those markets, they need to either find focused niche markets (Porter, 1980) or explore blue oceans (Kim and Mauborgne, 2005). For example, when Haier, a Chinese white good producer that was relatively resource-poor compared to other big western companies, entering into the US market, it deliberately chose to start with selling refrigerators with below 160 liter capacity, a market segment that was not interested by the major western companies. Haier then found the niche market of low-priced mini-fridges suitable for college dorms and smaller wine cellars suitable for city-dwellers (Kedia *et al.*, 2012). Starting from the periphery of the US market with suitable products, Haier managed to survive in the very competitive environment, laying solid foundation for it to become the world's top home appliance brand in 2009 (Gluckman, 2012).

In the catching-up stage, as the resource-poor firm needs to transform its identity from a peripheral actor into a recognizable mainstream player, it needs to enter into the similar or same product categories or market segments as the incumbents. The resource-poor latecomer then directly confronts the incumbents. Due to the asymmetry in technological prowess, the resource-poor firms normally cannot compete on product quality and technological innovation at this stage. To catch up, it needs to offer products or services that have high value-cost ratio and deliver them in fast speed (Li, 2016; Luo and Child, 2015). There are many ways to improve product value-cost ratio, one of which is to produce roughly similar or slightly lower quality product with much lower cost compared to the rivals' offerings (Li, 2016). The emerging market latecomers should take full advantage of the low labor costs of their home countries so that they can produce, at much lower cost, similar or same products offered by advanced country resource-rich firms.

The resource-poor latecomers also benefit hugely if their home markets are large with low but rising per capita GDP. To catch up, the emerging market latecomers should actively use FDIs as springboard activities (Luo and Tung, 2007, 2017) to upgrade their skills and capabilities so that they can gradually develop competitive advantages not only on cost and speed but also on quality and technology. Doing so can enable the emerging market firms to overcome the “double jeopardy of negative country of origin effects and latecomer brand” (Hamin *et al.*, 2014, p. 54). Huawei did exactly this, so did Haier.

In the outcompeting stage, as the focal firm is no longer a resource-poor peripheral player, it is now rightly positioned in the center of its industry. Here, competition among leading players is intense and the key to success is innovation of different kinds. Huawei, for example, has been committed to R&D and product innovation. In the Basic Law of Huawei, a constitution-like document made in 1998, it stipulates that Huawei allocates at least 10 percent of its annual revenue for R&D. Huawei has never failed sticking to this policy and in many years the ratio was as high as about 15 percent. Of course, firms do not need to solely rely on in-house innovation, as they have the opportunity to stimulate innovation by utilizing the technological resources and human talents spread all over the world. Therefore, the ability to utilize open innovation (Chesbrough, 2006) to gain competitiveness becomes a key success factor in this stage. For example, Haier has embarked on open innovation by transforming itself into a platform organization (McIntyre and Srinivasan, 2017). The purpose of Haier’s organizational innovation is to enable organizational participants (including Haier’s own employees, associates, and interested outsiders) with entrepreneurial ideas to realize these ideas by providing them with the much-needed resources, opportunities, and advices. A case in point is Thunderrobot, a micro-entrepreneurial startup emerged and nurtured on Haier’s platform. In 2013, three young employees of Haier, who were born after 1985 and crazy about computer gaming, had the idea of creating a powerful laptop suitable for computer gaming. They successfully sold their idea to Haier’s top management and got their support, and then the micro enterprise was created and attracted venture capital from Haier and external sources. Haier provided the nurturing platform for the startup to grow. In 2016, it made about 1.2bn Yuan sales revenue for its gaming laptops. In September 2017, Thunderrobot succeeded in being listed in the New Third Board Market, China’s over-the-counter stock market. Today, there are more than 200 micro-entrepreneurial startups being nurtured on Haier’s platform. The more growths the micro-entrepreneurial startups can make, the more successful Haier will become. In this sense, Haier now acts as a mutual nurturing platform. No wonder why why Dr Christian Busch of the London School of Economics and Political Science argues that Haier’s innovative Rendanheyi model of management “could not only be the next business model, but also the next social model” (Haier, 2016; Zhou, 2017, p. 688).

Concluding remark

Not all resource-poor firms can survive and thrive like Huawei and Haier have done. Why? To use Professor Ming-Jer Chen’s awareness-motivation-capabilities framework (Chen *et al.*, 2007), we can say, to compete with resource-rich rivals, resource-poor firms face many challenges. To succeed, they need awareness, motivation, and capabilities.

They need to be aware of the asymmetry and the challenges facing them. Given the challenges, not all resource-poor firms would have enough intrinsic motivation to take actions to confront the incumbents. If some do get motivated, they need to be proactive, persistent, and pragmatic. My observation is that, some Chinese firms who were initially resource-poor but managed to survive, catch up and outcompete, such as Huawei, Haier, Geely, etc., share some common characteristics. Namely, they are *aspirational*, *eager-to-learn*, *entrepreneurial*, *relationship-minded*, and *willing to work under tough conditions* (hereafter ALERT). In my view, these ALERT characteristics are necessary psychological factors that motivate or enable the development of a set of capabilities needed

for the resource-poor challengers to gain competitive advantages over their better-endowed rivals. My observation is that, the following capabilities are especially important for the resource-poor latecomer firms, i.e., be capable of speedy-to-market, *hardship-surviving*, *integrative*, *networking*, and *exclering* (hereafter SHINE). Because the resource-poor firms are normally lack of cutting-edge technologies and other valuable, rare, inimitable, and non-substitutable resources (Barney, 1991), being able to SHINE gives them a competitive edge over the strong incumbents.

Note

1. Here, I use the word “retention” in the evolution theory sense. The natural selection goes through the process of variation, selection and retention, which results in the survival of the fittest.

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Corresponding author

Xin Li can be contacted at: xlint@cbs.dk

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