Chapter 9
Small and Medium-Sized Enterprises in the Digital Business Sector: Examining Six Theories About Digital SME Success

Shahnaz Tehseen
https://orcid.org/0000-0002-4039-0256
Sunway University, Malaysia

Dilnaz Muneeb
https://orcid.org/0000-0003-4925-7504
Abu Dhabi University, UAE

Ali B. Mahmoud
https://orcid.org/0000-0002-3790-1107
University of Wales Trinity Saint David, UK

Dieu Hack-Polay
https://orcid.org/0000-0002-1038-5018
University of Lincoln, UK

Hui Yan Yeong
Sunway University, Malaysia

Faisal Nawaz
https://orcid.org/0000-0003-1663-895X
COMSATS University, Islamabad, Pakistan

ABSTRACT

The chapter is a systematic literature review of fundamental theories about small and medium business (SME) success. The chapter examines how they specifically impact digital SMEs. The chapter examined six theories: dynamic capability view (DCV), composition-based view of firm growth (CBV), resource-based view (RBV), resource dependence theory (RDT), upper echelon theory (UET), strategic contingency theory (SCT). The results showed that RBV, DCV, and UET become relevant in articulating the value inherent to the internal resources in SMEs (which render their capabilities dynamic). In contrast, the SCT framework and the RDT model show more significance in relation to uncertainty and contingency. CBV was found to be a more pertinent framework to predict the success of SMEs. The results support CBV’s hypothesis that SMEs (including digital SMEs) are able to be competitive without extensive resource advantage, too complicated technologies, or market power. The increased deployment of CBV can be advocated as a critical determinant of digital SME success.

DOI: 10.4018/978-1-7998-7603-8.ch009
INTRODUCTION

The past three decades have seen a significant growth in the literature coverage of small and medium-sized enterprises (SMEs) which are said to represent some 90 per cent of the businesses globally; (OECD, 2019). Despite their numbers and contributions, SMEs do not attract as many headlines in the business media as the larger businesses and multinationals (Mesquita & Lazzarini, 2008). This is often attributed to the fact that a single large company can make a significantly noticeable impact due to the number of people they employ and the posted yearly profit. It is equally thought that the prominence of large firms in the headlines is linked to the fact that their strategy formulation draws extensively on external environmental factors and resources in the public domain, thus affecting many people and communities. Conversely, SMEs’ strategy formulation draws on adequate resources and contexts that are SME-specific and with less widely spread footprint. This is particularly visible in digital SMEs.

What constitutes an SME has been clarified by many academics. However, political definitions have also been formulated through guidelines in various economic zones. For instance, in the European Union, an SME is a company that has fewer than 250 employees, and under £45 million in annual turnover (Europäische & Equal Opportunities Unit, 2005). In the United States, SMEs are often thought to be constrained by resource shortages. The definition of SME adopted in this paper encapsulates businesses with limited resources whose competitiveness derives largely from stretching ordinarily available resources into dynamic capabilities. These actions are instrumental for their survival (Korsakiene & Diskiene, 2015; Luo & Child, 2015) as they attempt to compete with larger businesses with more established resources. The academic literature coverage of SMEs has been extensive in the past two decades (Rakićević et al., 2016).

A key issue in digital SME’s success research is the development of a theoretical foundation. More understanding of the arena of enterprise scholars in enterprise and that of digital SME owners probing the theories that support SME growth. There is, however, some obscurity around what is known about pertinent theoretical frameworks in the field. This research, thus, purports to examine some common theories deployed by academics to expound the achievement of SMEs. This study is equally an effort to establish critically pertinent theories to support scholarly investigations in the future.

The paper centres on the following research questions:

- What are the critical assumptions of Dynamic Capability View (DCV), Resource-Based View (RBV), Upper Echelon Theory (UET), Strategic Contingency Theory (SCT), Resource Dependence Theory (RDT), and Composition-Based View of Firm Growth (CBV)?
- What are the main criticisms and critiques on Dynamic Capability View (DCV), Resource-Based View (RBV), Upper Echelon Theory (UET), Strategic Contingency Theory (SCT), Resource Dependence Theory (RDT), and Composition-Based View of Firm Growth (CBV)?
- What is the most appropriate theory to study the SME’s business context w.r.t sustained organisational performance and competitive advantage?

This paper has three main parts. The first is concerned with the methodology that is used to approach the investigation; the second part reviews the literature surrounding the four theoretical frameworks under investigation, and the third part provides a critical evaluation of the literature and the theories discussed.
Small and Medium-Sized Enterprises in the Digital Business Sector

Background

Much of the body of the theoretical perspectives in which are the subject of this paper (DCV, RBV, and UET) emphasise that endogenous aspects such as in the entrepreneurs’ competencies and attributes are critical to succeed (Ayuso & Navarrete-Báez, 2018; Bruneel & De Cock, 2016; Hollender et al., 2017). Some other theories (SCT and RDT) take a different perspective and view exogenous aspects as key to SMEs’ competitiveness (Akingbola, 2013; Arosa et al., 2013; Zhou et al., 2018). Finally, CBV is concerned with how more common (or smaller SMEs) succeed (Luo & Bu, 2018; Luo & Child, 2015) because they deploy mixed resources and creatively amalgamate their limited capabilities. However, DCV, RBV, UET, SCT and RDT were used in many investigations as basic frameworks to study SMEs despite reservations about their suitability to examine SME realities. Thus, such studies have drawn an amount of criticism.

The lack of coverage of the context of digital SMEs is a critical aspect of these criticisms. This shows how the application of these theoretical frameworks has not adapted to the evolving nature of SMEs. i.e. how RBV, DCV, SCT, UET and RDT could aid the investigation into SMEs whose operations have transcended traditional ‘land-based’ SME operations. More specifically, the RBV and DCV perspectives tend to heighten the VRIO (valuable, rare, inimitable, organisation) framework that may not necessarily be unique to SMEs generally and digital SMEs in particular due to the widespread digitisation that many businesses tend to take advantage of. This begs the need to categorise a more suitable framework to investigate new forms of SMEs, particularly those that live mostly digitally. Hence, this study relinquishes the examination of the CBV framework to make sense of new forms of SMEs, particularly those that live mostly digitally. Hence, this study relinquishes the examination of the CBV framework to make sense of new forms of SMEs, such as the digital ones. Authors such as Luo and Child (2015) see CBV theory as more appropriate to examine a plurality of SME contexts, thus offering avenues to consider digital SMEs which were not widely considered in the traditional SME domain. Thus, CBV differs from other analytical theories such as DCV and RBV because CBV is viewed as a pragmatic (thus dynamic) approach which can help capture the evolving nature of SMEs (Volberda & Karali, 2015). The authors also view CBV as less appropriate for the study of more sizable companies due to its emphasis on basic day-to-day capabilities, as is the case in SMEs.

A case for rejecting other theories such as the resource-based view (RBV) and dynamic capability view (DCV) in the examination of the SME contexts is made by Li (2016) who see these frameworks as more suitable for examining larger companies. Li (2016) contends that the RBV is not appropriate to deal with survival perspective as seen in the fiercely competitive global marketplace due to RBV’s excessive focus on VRIO as explained earlier. Similarly, Barney (1991) believes that dynamic capabilities (DCV) theory does not qualify for the study of SME context because it is merely an extension of the RBV framework. The maintenance of competitive advantage in RBV and DCV is determined by firms’ ability to appropriate unique, rare, inimitable, valuable, and non-substitutable organisational resources. The DCV framework mainly views capabilities as uniformly spread in the company because they rest on organisations’ unique processes and asset positions; this then excludes, SMEs are chiefly and first concerned with imminent realities, thus a temporary competitive advantage.

Owing to the recentness of the CBV theory, it is more likely to capture recent phenomena such as the emergence and growth of digital SME businesses and mainly because it focuses on survival rather than growth. It is well known that digital SMEs emerge fast but they could also vanish fast, making this field suited for the application of CBV (OECD, 2019) because they do not have “the benefit of resource advantage, proprietary technologies and market power” (Luo & Child, 2015, p. 379). Despite the limita-
Small and Medium-Sized Enterprises in the Digital Business Sector

METHODOLOGY

The Use of Systematic Literature Review

This research conducted a systematic review of the literature, which critically discussed the body of research in the field. The advantage of the systematic literature review is that it allows the researchers to account for most relevant studies and operate a critical examination of these sources. As Dochy (2006) contends, the process aims to decrease bias and increase the robustness of the study. This research examines digital SMEs in this paper in the light of common theories deployed by previous researchers, in view to suggest a more suitable analytical, theoretical framework. This means that this systematic literature review endeavour had to focus on topics that tightly connected with the field, as Collins and Fauser (2005) advise.

Two forms of systematic reviews have emerged over time: (1) traditional narrative-based review and (2) evidence-based review. In traditional narrative-based literature reviews, the research seeks to highlight how scholarly knowledge has been widened. In evidence-based reviews, researchers seek to analyse qualitative results in the body of literature available in view to aid policy formulation (Hack-Polay, 2020; Shujahat et al., 2017). Our paper uses evidence-based systematic review. By research questions, summarise the data, and assesses and integrates reliability and validity of the data. The paper also synthesises the significant perspectives visible in scholarly theories that holistically conceptualise theories such as CBV, DCV, RBV, RDT, SCT and UET. Below it is clarified how the systematic literature review in this paper was completed.

Sources of Data

The current study probed central databases in the area of management science (Academy of Management, Cambridge University Press, Emerald, Elsevier, Google Scholar, InformsPubsOnLine, John Wiley & Sons, JSTOR, ProQuest, SAGE, Wiley InterScience Journals and Wiley Online Library). Table 1 summarises these sources, and Table 2 shows the strings defined to obtain the literature.

Inclusion/Exclusion Criteria

This study opted to include in the study pertinent papers with the characteristics: (1) published in English; (2) date of publication between 1970 and 2017 (3) Non-empirical, empirical, theoretical and qualitative investigations related to the theories selected for this study. Papers that were duplicates studies were excluded from the study.

To perform the final review, keywords and abstracts were used to assess the related papers for this study from the remaining research papers. Besides, full-text articles were readout of remaining papers to assess the studies that met inclusion criteria. The remaining papers were screened out based on their abstracts that did not indicate any assumption or criticism on understudy theories. The remaining studies were studied thoroughly to include the most relevant and comprehensive studies. This led to the selection
of 64 articles which were reviewed. The main summarised points from each study were synthesised and then integrated into the methodology part to answer the research questions.

**DISCUSSION OF SELECTED THEORIES IN DIGITAL SMES CONTEXT**

Some of the theories discussed earlier, particularly DCV, RBV, UET, and CBV, will now be closely reviewed, applying them to the specific context of digital SMEs. The first theory, DCV, assumes that DCs of firms can result in superior performances. This explains how companies attain sustainable competitive advantage through the deployment of their DCs in response to the competitive environment (Teece, 2007). DCV addresses the component of the external environment explains the sources of organisational performance; it provides little room to understand the reasons why a number of digital SMEs experience more significant growth than others (Miles, 2012). DCV assumes that sustainable competitive advantage is a direct result of management and organisational processes of coordination, integration, reconfiguration, and learning. Individuals or SMEs that are new entrants to a given market can show high attainment as they amass information and understanding of that market and its actors (suppliers, customers, competitors) and they alter their entrepreneurial responses to market requirements. The application of the framework proposed by DCV is minimal in terms of its application to digital SMEs, those businesses start with one individual or very few individuals, with some remaining largely unstructured entities. Such entities then do not necessarily have the formal and bureaucratic (managerialistic) processes akin to larger companies because a strategy is down to the competencies and intent of the owner-entrepreneur who can single-handedly better identify and exploit emerging possibilities in the digital market.

The next framework applied to digital SMEs is the RBV theory which is concerned with how businesses develop a strategic competitive advantage by deploying what Barney (1991) refers to as valuable, unique, non-substitutable, inimitable, and rare resources. This study deems RBV unfit for the examination of many digital SMEs which first start as resource-poor resource-constrained entities. A case for this unsuitability of RBV for SMEs generally was earlier made by Li (2016). As argued earlier, many digital SMEs (even those that developed into mega businesses such as Google or Facebook) were initially SMEs with ordinary and minuscule resources. The success of the enterprise then was mostly contingent upon the entrepreneur’s motivation and his/her ability for successful resource recombination. The RBV framework is also not always capable of offering explanations as to how digital SMEs stretch their limited resources to develop dynamic capabilities that can withstand competitive assaults from the myriads of players in the crowded digital business environment. RBV is not competent to explain how emerging small digital SMEs do/ can pass market tests for inimitability, substitutability, appropriability, durability and competitive superiority since most such SMEs (as asserted earlier) start with ordinary resources and capabilities that make them vulnerable.

Our third key framework to the discussion is in connection with digital SMEs is the Upper Echelon Theory (UET). As debated in the previous section of this paper, UET views organisational performance in the light of the capabilities and competencies the top managers’ harbour (Hambrick, 2007). To make such propositions more robust, more increased causal explanatory research among UET scholars is required (Priem et al., 1999). This is because the applicability of UET to digital SMEs (and many – particularly – new SMEs) is limited. Particularly the vast array of small businesses within the broader SME context do not have sizeable senior management teams (SMT). Such increased causal explanatory research can assist the current study understanding of the mediating variables that characterise the relationship
between digital SME factors and the traits that the entrepreneur-owner possesses. Thus, UET research, to be relevant to digital SMEs and SMEs at large, need not focus on the reality of managerial function, capability and traits but also entrepreneur traits (particularly in a small start-up digital SMEs). Failing to take this shift, UET will continue to be criticised in the context of SMEs because of the paucity of construct validity and explanatory power in this theory (Oppong, 2014; Priem et al., 1999).

The CBV theoretical framework has not escaped critical scrutiny in the literature. As explained in the previous section, the main charges against CBV centre on its lack of clarity in its theoretical positioning, the abstract aspect of the concept of CC and that of self-imposed constraints (Li, 2016). This theoretical standpoint is a recent construction, and perhaps, it is due to this recentness that it reflects better than others the contemporary business environment. Its core argument is that companies can grow and compete using limited proprietary technology, market power, and unique resource (Luo & Child, 2015) appears to resonate well with digital SMEs with who is described by this chapter as entrepreneur spirit. CBV suitable in this chapter’s view is suited for the study of SME contexts – and more specifically digital SMEs’ – because its position is an acknowledgement that managerial functions and hierarchical structures are not sine qua non conditions for business growth. The phenomenal growth of many contemporary digital businesses that started as a ‘one-man or one-woman’ band is a testament to this. This research asserts that CBV could become an even more effective analytical, theoretical framework if it could draw on some relevant features of other organisational theories such as the DCV and RBV, that can strengthen its position as the theoretical lens for SME’s study.

Extending onto DC, CBV also complements the DCV innovative composition perspective. The composition process of CBV is in itself a firm’s DC that is an idiosyncratic, firm-specific capability. It is similar to DC’s view of “the firm’s ability to integrate, build, and reconfigure internal and external competence to address rapidly changing environments” (Teece et al., 1997). Both DCV and CBV researchers have pointed out that not only should the search for new resources be more innovative, but the usage of existing resources should also be applied in new ways (Koestler, 1964; Penrose & Penrose, 2009; Schumpeter, 1982; Usher, 2013). CBV has much in common with DCV, as Resource Recombination (also known as “Schumpeterian innovation”) which is an innovation resulting from the “carrying out [of] new combinations” (Schumpeter, 1982, p. 68), traces its theoretical roots to DCV.

Both RBV and CBV complement the superior strategic resources’ possession as an unnecessary condition for a firms’ competitive advantage. Although RBV postulates that resources which are inimitable, valuable, non-substitutable, and rare contribute to SCA (Barney, 1991), however, the possession of such resources is not essential. Similarly, CBV does not insist on the possession of such resources as an essential condition for the firms’ SCA. Instead, CBV highlights the importance of various generic resources that may produce the temporary competitive edge to firms by using them in an innovative composition. Also, the CBV theory highlights that CBV’s composition process is a distinct capability and core competence that is heterogeneous, valuable, and difficult to imitate—similar to the resources of RBV (Barney, 1991).

These four theories, namely DCV, RBV, UET, and CBV as discussed in light of SME success, are related to the concept of internal resources, while SCT and RDT are related to external factors. RDT presents the theory that firms can survive due to their ability to attain and maintain critical resources (Pfeffer & Salancik, 1978). However, it is not possible to test RDT because it consists of several hypotheses (Nienhüser, 2008). RDT does not provide much support to external factors such as uncertainty and scarcity of resources within its environment, which ultimately affects strategic decision-making. In cases of uncertainties, the application of the RTD theory does not provide support to decision-makers on
Small and Medium-Sized Enterprises in the Digital Business Sector

how to control these external factors. However, it does have implications for factors including production strategies, organisations’ optimal divisional structure, employees and board members’ recruitment, contract structure, organisation’s external links, and some other aspects of organisation’s strategy. In this regard, RDT is not successful in providing a sense of rationality for the organisation.

Similar to RBV, SCT is static, ineffectual in managing organisational adaptation and changes (Galunic & Eisenhardt, 1994) and unable to take into account how organisations change from one “Fit” model to another over time. Additionally, the SCT that has been widely used in existing literature constitutes the core concept of “Fit.” This suggests that superior organisational performance depends on the proper alignment of external and internal organisational factors (Linton, 2014). However, the theory’s assumption that “Fit” results in high performance is only valid by definition and cannot be tested (Miles, 2012).

CRITICAL PERSPECTIVES ON THE SIX THEORIES COVERED

Dynamic Capability (DCV) Theory

Teece et al. (1997) characterised “dynamic capability” (DC) as the ability of a company to frame and reframe internal and external competencies in order to cope with unpredictable environmental events. Teece and Pisano (1994) noted dynamic capabilities (e.g. timely innovation, effective deployment of the organisation’s internal and external competencies) as determinants to firms’ competitiveness.

For Teece et al. (1997), DCV helps to grasp the way in which dynamic capabilities aid companies in establishing and sustaining competitiveness in a fiercely thought market place (Teece, 2007), placing dynamic capabilities at the centre of the companies’ achievements. DVC places capabilities and competencies at the core of management activities and as asset-dependent.

Protagonists of the DCV framework stress that the meaning assigned to “dynamic capabilities” in DCV is blurred and has inconsistencies (Arend & Bromiley, 2009; Zahra et al., 2006). Owing to the difficulties in operationalising the definition proposed (Eisenhardt and Martin 2000). Further limitations were found by Arend and Bromiley (2009) that the inability of a company to adapt to certain circumstances is not synonymous of lacking dynamic capabilities.

Resource-Based View (RBV) Theory

RBV has two fundamental claims. The first argues that firms’ differences lie in resource capabilities; the second of RBV’s claim is that companies’ resources are not always transferable. RBV in thus mainly concerned with differences in companies’ performance in relation with the resources and how they can maintain their competitive advantage in harshly competitive environments (Barney, 1991; Hoopes et al., 2003; Peteraf & Barney, 2003; Wernerfelt, 1984). When other companies in a firm’s market falter and cannot beat it, then sustainable competitive advantage (SCA) emerges as sustainable It, therefore, is the result of rarity, inimitability, non-substitutability and value of the firm’s assets and capabilities (Barney, 1991).

The RBV is not without criticisms. These are primarily linked to the model’s lack of clarity (Connor, 2002; Miller, 2003) about what it categorises as the uniqueness of resources to provide more guidance about their effective deployment. Taking other critical perspectives, other researchers (Lockett et al., 2009; Miles, 2012; Priem & Butler, 2001) contend that the elements of the RBV are repetitive and lacks
consideration for organisational contextual and firms’ strategic capabilities and intents factors. More critically, Fiol (2001) that SCAs are unattainable Due to the evolving nature of business realities, and advocates that it is more realistic for firms to focus on developing temporary competitive advantage for a given market condition. Miles (2012) and Armstrong and Shimizu (2007) support this view and add that the relatively thin empirical evidence at this study’s disposal is inadequate to claim that sustained competitive advantage is achievable through the elements of the RBV. Thus, it is claimed (Li, 2016) that there are other factors outside of the RBV elements that could lead to firms’ (especially in the highly volatile digital SME context) competitive advantage.

**Upper Echelon Theory (UET)**

The model claims that the personality, values and experiences of managers exert a significant impact on how they view and assess organisational and business reality (Hambrick & Mason, 1984). The UET framework proposes that managerial decisions have a robust indivual basis, meaning that such decisions depend on the manager’s view of the world. For Hambrick (2007) bounded rationality is the foundation of the Upper Echelon Theory, establishing that complexity is not necessarily an impediment to a robust assessment and prediction. S company, therefore, reflects its top echelon and their insights and flaws (Hambrick, 2007).

Although the Upper Echelon Theory emphasises the crucial place of top management in predicting firm performance, UET theory is not exempt from criticisms. Most critiques (Oppong, 2014; Priem et al., 1999) centre their reproach on the absence of full explanation, constructive validity and prescription practicality in the UET framework. The theory does not examine sufficiently the place demographics occupies in the performance of companies and their on-going strategic formulation (Oppong, 2014; Priem et al., 1999). This is a limitation because the study of companies’ digitisation in the i-era cannot be divorced from generational considerations since it is well documented that there are generational differences in the preferences of customers that SMEs target as they go online (Mahmoud, Fuxman, et al., 2020; Mahmoud, Grigoriou, et al., 2020; Mahmoud, Reisel, Fuxman, et al., 2020; Mahmoud, Reisel, Grigoriou, et al., 2020). Other authors (Barrick et al., 2007; Ilgen et al., 2005; Smith et al., 1994) consider UET to be a little elaborate framework as it blurs key mediating and moderating elements.

**The Strategic Contingency Theory (SCT)**

The notion of ‘Fit’ is at the centre of the SCT theory. It postulates that organisational performance is a result of the congruence between the company’s key characteristics (goals, demands, needs, and structures) and contingent factors in its environment. This view is mainly well supported among contingency-based researchers such as Steiner (1979), Hofer (1990) and Ginsberg and Venkatraman (1985). They view a firm’s resources in conjunction with environmental factors as possible avenues for strategic formulation (Hofer, 1990; Lawrence & Lorsch, 1967), making contingency central to the firm’s operation.

Many authors (Drazin & Van de Ven, 1985; Nadler & Tushman, 1980; Umanath, 2003) “Fit” is an alignment between the firm’s resources and competencies and environmental factors (Venkatraman & Camillus, 1984) which deliver performance outcomes.

Many authors (Miles, 2012; Perrow, 1979; Schreyögg, 1980) reproach SCT the deterministic stance that it takes. This essential criticism is rooted in the view that in the SCT framework, contingencies determine the organisation attitudes and choices, assuming that most first approach to business reality
Small and Medium-Sized Enterprises in the Digital Business Sector

is essentially reactive (Miles, 2012). The opponents of SCT framework assert that managerial autonomy is the actual term contradictory to SCT’s premise. For instance, strategic choices have been offered as a middle ground to give freedom to managers in their decision-making activities within the contingency framework (Child, 1972).

Resource Dependence Theory (RDT)

The RDT theory provides directions about how to the external constraints facing organisations. Its founders’ Pfeffer and Salancik (1978) profess the company’s ability to survive by minimising uncertainty and dependency. Significantly, they contend that, in order to understand companies’ behavioural approaches, it is crucial to examine their ecology. The RDT theory, in this perspective, comprises various hypotheses, e.g. the need for interaction between firms, it is possible each company to compete with rivals, etc. These interactions signify interdependence between in the competitive market. Nevertheless, at the same time, firms can sustain competition more effectively by reducing their level of dependency on other actors (Delke, 2015; Nienhüser, 2008) and maximise the exploitation of various other on which they are also dependent is critical for competitive advantage (Nienhüser, 2008).

However, critics such as Casciaro and Piskorski (2005), see many obscurities in RDT theorisation. Specifically, they criticise the notion of constrained absorption inherent in the model. It suggests that companies which labour to minimise uncertainty cannot achieve that; these perceptions are confounded with the predictions of the RDT framework (Casciaro & Piskorski, 2005). Delke (2015), more critically, raises RDT’s general constructs and assumptions which are not always justified and do not provide clear rationale to substantiate the reason why companies political nature is emphasised in contrast with the economic rationale (Nienhüser, 2008). This raises doubts as to whether the RDT theory was sufficiently probed (Pfeffer & Salancik, 2003).

A Composition-Based View of Firm Growth (CBV)

Luo and Child’s (2015) CBV theory postulates that company growth is achievable in the absence of resource advantage, basic technology and market power. This theoretical framework contends that a significant aspect of company development rests on the ordinary firm type which is concerned with common resources. This means that the company can be in a position derive heightened outcomes through the [1] effective and creative deployment of existing open resources, and [2] integration of capabilities that are geared at enhancing the critical price-value ratio for many of their consumers. Ordinary firm types possess basic resources and often do not have strategic assets in the form of too technologies as well as brand image. Numbers of SMEs in the advanced world in the emerging world have these characteristics (Chesbrough, 2007). The authors of the theory have since revisited their standpoint and view ordinary firms’ competitive strategies as lead those of established competitors.

The Composition-Based View theory, thus, establishes that companies can grow and develop competitive advantage by obtaining basic resources that they can find in the marketplace and mobilise them for a timely response to market trends.

The meaning of “ordinary resources” in this context centres on generic assets and not singular to a firm. These can be traded copied and acquired easily, industry partners. In turn, “composition” refers to identifying, configuring and integrating various forms of resources (and means of competition) for the attainment of competitive advantage, e.g. higher price-value, more offerings, and speedy response
to market fluctuations. Companies that rely on CBV are better at the use of the low-cost new designs for timely responses to market dynamics of the market. CBV theory emphasises the lack of uniqueness in SMEs’ resources, thus encouraging them to seek opportunities through the effective deployment of common resources which the market offers more readily (Chittoor et al., 2009).

However, the CBV theory was rejected owing to its excessive accent on Chinese SMEs (Burton, 2015), and its emphasis on structural resilience, use of low-cost resources, entrepreneurial drive, ambidexterity advantage of the firm, bricolage, harmony and yin-yang perspective. As Burton (2015) claimed, these CBV elements are not novel and seldom reflect an expression of creative composition. Low-cost approaches are not valid assumptions for all companies and ambidexterity is also deemed to be an answer for intricate management issues (Burton, 2015; Burton et al., 2020). These authors also view effective culture and entrepreneurial drive as compulsory for companies across the board. Further criticism of the CBV likens it to a ‘survival-of-the-fittest’ approach which enables flexible firms to crush the rest to survive in a fluctuating business environment. Such an approach for Burton (2015), is tactics geared at short-term gains as opposed to long terms strategic perspective.

Other critics, Volberda and Karali (2015), believe that using compositional capabilities (CCs) in conjunction with ordinary resources is within the scope of the RBV framework, making CBV rather an extension of RBV as opposed to being viewed as a totally separate theorisation. Top management is often tasked with blending basic resources effectively with the intent of gaining competitive advantage. In this perspective, CCs stand as unique subsets in the RBV theory and ought to be categorised as DCs because the positive use of compositional capabilities as core competencies. To ascertain this more robustly, Volberda and Karali (2015) advocate for more research about compositional capabilities in a variety of situations.

Li (2016) identified three additional limitations of the CBV theory. Li argues that the key perspective of CBV lacks clarity. The novelty in the CBV theory is also questionable as is the question about its applicability for all resource-constrained companies. The speculative nature of CCs blurs CBV’s singularity.

SOLUTIONS AND RECOMMENDATIONS

Our paper started with the aim of developing a systematic review of some theoretical approaches used to analyse the success of small and medium-sized enterprises (SMEs). The current study critically considered the DCV, RBV, UET, SCT, RDT and CBV. The derived analysis shows that these theoretical perspectives are currently used by researchers to attempt to SME success, however, they attract much criticism due to their shortcomings. These shortcomings, the chapter has demonstrated, are more accrued when endeavouring to apply the theories to digital SMEs is the many criticisms persist owing to the fact that the theoretical frameworks examined in this study are little testable; their use largely only has reasonable success with the core concepts, e.g. top management capabilities, organisational structure, ecology, etc. They ignore (or are little competent for analysing business realities outside of these traditional areas in the field or organisational studies. Areas such as the study of small digital businesses that may not have an extensive managerial function are outside the scope of these popular theories. Because these frameworks, to explain business success, emphasise ‘unique, valuable, and rare resources’ SMEs and digital SMEs, particularly, that do not possess them at the initial stage (and sometimes for a protracted length of time) could be overlooked in critical academic research, therefore limiting the understanding of this vast domain. SMEs can possess resources that are easily available within the business environ-
Small and Medium-Sized Enterprises in the Digital Business Sector

ment - therefore not perceived as unique, valuable or rare – but there may be an entrepreneur spirit that often make them work. With the tremendous success in the past two decades of many digital SMES, an understanding of this dynamic entrepreneur spirit is now timely.

Miles (2012) considered that writing a critique of existing literature/theories is one of the ways to contribute to organization and management theory. In line with this, current research considers that the review and critique of understudy theories could be considered as one of the contributions to the existing literature in entrepreneurship's theories because these theories have been commonly used by many studies relevant to entrepreneurship field while studying the context of small, medium, or large size businesses. The review and critique of these theories would provide useful insights to the future researchers to select and use the most appropriate theory in their studies while studying the SMEs’ business success.

By proposing CBV over other theories, it is aimed at contributing towards:

1) Luo and Child (2015, p. 405) state “an intriguing area for future research lies in the underlying processes and systems by which compositional capabilities are established”, hence CBV theory can help in establishing the sequential procedures and explanation of how the managers of the firms convert ordinary resources to extraordinary to survive in the market.

2) In addition to procedures, these insights could be used to offer explanations on the “Survival Concept” apart from only relying on traditional good management practices.

3) After gaining such insights, hypotheses can be developed, and data could be gathered to validate and refine the theories.

Hence, with the help of these steps, this chapter can explore the underspecified and underlying managerial procedures that would assist the firms for their survivability.

As mentioned earlier that SMEs businesses mostly deal with ordinary types of resources to operate their businesses and do not deal with unique or rare types of resources. Since CBV emphasizes on ordinary types of firm’s resources, thus, it provides more useful insights to study the context of SMEs' businesses. Thus, by reviewing and comparing the existing organizational theories with CBV, this study founds the greater relevancy of CBV to study the ordinary types of firm’s resources and thus, this study does contribute to the current literature by recommending CBV for the future researchers while studying the SMEs’ resources under various contexts. This is because, in line with Luo and Child (2015), this study does believe that CBV is the most appropriate theory to study the context of SME or small businesses in any context because these types of the businesses deal with the ordinary resources for their survival and to gain the temporary competitive advantage.

FUTURE RESEARCH DIRECTIONS

The main limitation of this study is that it reviewed and criticized only six theories and did not review and critique some other grand theories such as Absorptive Capacity (AC), Knowledge-Based View (KBV), and Resource Management View (RMV) that have also been used while studying the predictors of SMEs under various contexts.

Although the review, as well as the summary of existing theoretical work, have a great value in the field of management and organization theory (LePine & King, 2010; Miles, 2012). However, the simple review of existing studies is not enough to get the work published (Kilduff, 2007). The future researchers
can maximize the potential contribution of their review’s literature by clarifying or challenging interrelationship in the theories, addressing the shortcomings for the theories, identifying theoretical problems, and critiquing as well as highlighting relationships among constructs in the theories.

CBV appears to be the most appropriate theory to predict the success of SMEs. This is because the theory claims that small or ordinary firms can capitalise on ordinary and accessible resources to create their niche products. Therefore, this paper suggests that future research should employ the CBV theory to support the constructs of their research framework. In connection with this, further empirical research is needed to understand the development and decline process of SMEs—especially regarding how SMEs start their business, achieve success, sustain their success, and how and why they decline. Researchers across the field of SMEs, entrepreneurship, manufacturing, and innovation should, therefore, conduct joint research to gain wider knowledge on SMEs’ competitive advantage.

Table 1. Sources of data

<table>
<thead>
<tr>
<th>Name of database</th>
<th>Database website</th>
</tr>
</thead>
<tbody>
<tr>
<td>SAGE</td>
<td><a href="http://jom.sagepub.com/">http://jom.sagepub.com/</a></td>
</tr>
<tr>
<td>Wiley Online Library</td>
<td><a href="https://onlinelibrary.wiley.com/">https://onlinelibrary.wiley.com/</a></td>
</tr>
<tr>
<td>JSTOR</td>
<td><a href="http://links.jstor.org/">http://links.jstor.org/</a></td>
</tr>
<tr>
<td>Elsevier</td>
<td><a href="https://www.sciencedirect.com/">https://www.sciencedirect.com/</a></td>
</tr>
<tr>
<td>Google Scholar</td>
<td><a href="https://scholar.google.com/">https://scholar.google.com/</a></td>
</tr>
<tr>
<td>Emerald</td>
<td>emeraldinsight.com</td>
</tr>
<tr>
<td>Academy of Management</td>
<td><a href="https://journals.aom.org/">https://journals.aom.org/</a></td>
</tr>
<tr>
<td>Cambridge University Press</td>
<td><a href="https://www.cambridge.org/">https://www.cambridge.org/</a></td>
</tr>
<tr>
<td>ProQuest</td>
<td><a href="https://search.proquest.com/">https://search.proquest.com/</a></td>
</tr>
<tr>
<td>InformPubsOnLine</td>
<td><a href="https://pubsonline.informs.org/">https://pubsonline.informs.org/</a></td>
</tr>
<tr>
<td>Wiley InterScience</td>
<td><a href="http://www.interscience.wiley.com">www.interscience.wiley.com</a></td>
</tr>
</tbody>
</table>

Source. An output of the current study

Table 2. The strings utilised to obtain the literature

<table>
<thead>
<tr>
<th>Name of database</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dynamic Capability View’s (DCV) assumptions and criticisms</td>
</tr>
<tr>
<td>Resource-Based View’s (RBV) assumptions and criticisms</td>
</tr>
<tr>
<td>Upper Echelon Theory’s (UET) assumptions and criticisms</td>
</tr>
<tr>
<td>Strategic Contingency Theory’s (SCT) assumptions and criticisms</td>
</tr>
<tr>
<td>Resource Dependence Theory’s (RDT) assumptions and criticisms</td>
</tr>
<tr>
<td>Composition-Based View of Firm Growth’s (CBV) assumptions and criticisms</td>
</tr>
</tbody>
</table>

Source. An output of the current study
The future researchers are recommended to use CBV while studying the common resources as the predictor of SMEs’ business success, on the other hand, they can also integrate CBV with other grand theories including Strategic Contingency Theory (SCT) and Resource Dependence Theory (RDT) while studying the internal as well as external general factors/resources of SMEs simultaneously in order to predict their success. Researchers can do so by looking for similar constructs in line with the approaches in one or more grand theories, then looking for the ways to integrate these theories into a unified and new approach to explain a certain phenomenon.

**CONCLUSION**

The findings of this research propose the application of CBV theory for the success of SMEs as compared to other theories. And since the focus of CBV is “firms with ordinary resources can establish a strong position in 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” (Luo & Child, 2015, pp. 381). It provides insights into how managers can explore the sequential process of reconfiguring ordinary resources and offer explanations on the “Survival Concept” apart from only relying on traditional good management practices. It offers insights into hypotheses development towards data collection and refinement of theories.

---

**Table 3. List of Abbreviations**

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AC</td>
<td>Absorptive Capacity</td>
</tr>
<tr>
<td>CBV</td>
<td>Composition-Based View of Firm Growth</td>
</tr>
<tr>
<td>CC</td>
<td>Compositional capabilities</td>
</tr>
<tr>
<td>DC</td>
<td>Dynamic Capabilities</td>
</tr>
<tr>
<td>DCV</td>
<td>Dynamic Capability View</td>
</tr>
<tr>
<td>JSTOR</td>
<td>Journal Storage</td>
</tr>
<tr>
<td>KBV</td>
<td>Knowledge-Based View</td>
</tr>
<tr>
<td>OECD</td>
<td>Organization for Economic Cooperation and Development</td>
</tr>
<tr>
<td>RBV</td>
<td>Resource-Based View</td>
</tr>
<tr>
<td>RDT</td>
<td>Resource Dependence Theory</td>
</tr>
<tr>
<td>RMV</td>
<td>Resource Management View</td>
</tr>
<tr>
<td>SCA</td>
<td>Sustainable competitive advantage</td>
</tr>
<tr>
<td>SCT</td>
<td>Strategic Contingency Theory</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Medium-Sized Enterprise</td>
</tr>
<tr>
<td>UET</td>
<td>Upper Echelon Theory</td>
</tr>
<tr>
<td>VRIO</td>
<td>Valuable, Rare Inimitable, Organized</td>
</tr>
</tbody>
</table>

*Source*: An output of the current study
REFERENCES


For Personal Use Only.

Small and Medium-Sized Enterprises in the Digital Business Sector


For Personal Use Only.

Small and Medium-Sized Enterprises in the Digital Business Sector


Small and Medium-Sized Enterprises in the Digital Business Sector


For Personal Use Only.

Small and Medium-Sized Enterprises in the Digital Business Sector


ADDITIONAL READING


Small and Medium-Sized Enterprises in the Digital Business Sector


**KEY TERMS AND DEFINITIONS**

**Composition-Based View of Firm Growth (CBV):** It suggests that company growth is achievable in the absence of resource advantage, basic technology and market power.

**Digital SME:** A small or medium-sized enterprise that undergoes digital transformation and adopt an electronic commerce approach to its operations.

**Dynamic Capability View (DCV):** The ability of a company to frame and reframe internal and external competencies in order to cope with unpredictable environmental events.

**Resource Dependence Theory (RDT):** It provides directions about how to the external constraints facing organisations.

**Resource-Based View (RBV):** It has two fundamental claims. The first argues that firms’ differences lie in the resource capabilities; the second of RBV’s claim is that companies’ resources are not always transferable.

**Strategic Contingency Theory (SCT):** It postulates that organisational performance is a result of the congruence between the company’s key characteristics (goals, demands, needs, and structures) and contingent factors in its environment.

**Upper Echelon Theory (UET):** the personality, values and experiences of managers exert significant impact on how they view and assess organisational and business reality.