Journal of Business Research 62 (2009) 1139–1145

Contents lists available at ScienceDirect

Journal of Business Research

First come, first served: How market and non-market actions influence pioneer market share ☆

Belén Usero *, Zulima Fernández

Universidad Carlos III de Madrid, Instituto de Iniciativas Empresariales y Empresa Familiar, Spain

ARTICLE INFO

Article history:
Received 1 June 2007
Received in revised form 1 September 2007
Accepted 1 July 2008

Keywords:
Pioneer advantage
Market actions
Innovation
Non-market actions
Legal actions
Service industries
Telecommunications industry

ABSTRACT

This study examines the relationship between the erosion of first-mover advantages and the competitive behavior of pioneer and follower firms in a service industry—in this case, the European mobile telecommunications industry. The research analyzes the role of market actions related to innovation, pricing and promotion, and non-market actions related to judicial issues. The study finds that first movers enjoy a sustainable market share advantage in this service industry, but that this advantage depends on the type of actions taken by pioneers and followers. Specifically, followers that take more market actions than the pioneer are not able to erode the first-mover's advantage. However, followers taking more non-market actions – such as litigation and complaints – are successful at taking market share from the pioneer.

1. Introduction

Strategies are dynamic and firms must take actions both to build and protect their competitive advantages as well as erode their competitors' advantages. In many industries this results in interdependence: performance does not depend solely on individual actions but also on those of competitors. Firms, then, need to be alert to their competitors' moves and ready to respond.

The relationship between pioneers and followers clearly shows the interdependent nature of firms' actions. Follower firms need to develop competitive behavior that will enable them to erode pioneer advantage, while pioneers must fight to consolidate their position. Pioneer advantages are sustainable in many different manufacturing industries (Robinson, 1988; Kalyanaram and Urban, 1992; Urban et al., 1986). In service industries, though, holding onto pioneer advantages is hard (Kerin et al., 1992; Sundbo, 1997) as innovations are difficult to protect with intellectual property rights and competitive actions are easy to identify and imitate (Preissl, 2000; Hipp and Grupp, 2005). Information goods are an example of the incomplete protection that intellectual property rights provide. Indeed, digital technology has exacerbated this problem by making it possible to transmit information perfectly and instantaneously (Shapiro and Varian, 1999). Likewise, innovation is difficult in the financial industry because products are easy to copy and enhance (López and Roberts, 2002; Makadok, 1998).

Empirical research on pioneer advantages in service industries is still at an early stage. The few studies published find first-mover advantages in the financial sector (Tufano, 1989; López and Roberts, 2002; Berger and Dick, 2007) and in the mobile telecommunications industry (Bijwaard et al., 2004; Fernández and Usero, 2007), while surveys by Djellal and Gallouj (2001) and Song et al. (1999) indicate that although pioneer advantages exist in service industries, they are not easily sustainable.

The sustainability of pioneer advantage is likely to be contingent on the type of product (Srinivasan et al., 2004) and the type of actions taken by incumbents (Ferrier et al., 1999). Firms can compete by employing different types of actions related to factors like product, pricing and advertising (Smith et al., 1992). But firms can also act in the public policy arena via non-market actions such as regulation, litigation, and lobbying (Baron, 1993). The use of non-market actions, particularly litigation, to obtain competitive advantages has become "a necessity, not an option, in business" (Shell, 2004, p. 19). This may be especially true when the business models and technologies are easy to replicate or when government is in control of many of the business opportunities, which reduces the effectiveness of other types of actions (De Figueiredo and Spiller, 2000). In a service industry where actions are easy for competitors to identify and copy, then, non-market actions should be highly effective.

☆ This study received support from the Community of Madrid (Project No. 2008/00066/001).

* Corresponding author. Belén Usero, Universidad Carlos III de Madrid, Instituto de Iniciativas Empresariales y Empresa Familiar, C/ Madrid 126 (28903) Getafe, Madrid, Spain. Tel.: +34 916245822; fax: +34 916245707.

E-mail addresses: busero@emp.uc3m.es (B. Usero), zulima@emp.uc3m.es (Z. Fernández).

0148-2963/$ – see front matter © 2008 Elsevier Inc. All rights reserved.
doi:10.1016/j.jbusres.2008.07.005

De Castro and Chrisman (1995) have explored competitive strategies of pioneers and followers, while only – as far as we know – Ferrier et al. (1999) and Ferrier (2001) have studied the relationship between competitive behavior and the erosion of leaders' market. This paper continues this research. It has two objectives: First, to study the sustainability of pioneer advantage in a service sector like the mobile telecommunications industry. Second, to analyze what types of competitive actions are most effective at eroding pioneer advantage. In addition to product innovations and pricing, the paper will focus on the effectiveness of non-market actions.

The empirical study examines the European mobile telecommunications industry between 1997 and 2000. The characteristics of the sample make it possible to avoid two of the critical drawbacks of previous studies: the use of samples composed exclusively of US firms and the possible endogeny of market entry (Lieberman and Montgomery, 1998). First, most research has focused on US firms without considering whether the results could be generalizable to other countries. Our sample contains firms from countries in the European Union. Second, because firms were only able to enter the market when governments granted them licenses, the problem of endogeny disappears. The study also includes market and non-market actions, which – with the exception of Shaffer, Quasney, and Grimm (2000) – is not a standard practice in empirical research. Although prior research examines non-market actions, research on litigation is thin on the ground, as is work on the effects of non-market actions on firm performance (Hillman et al., 2004). This study analyzes both aspects.

The paper is set out as follows. The next sections establish the theoretical framework and hypotheses that the study will test and present the empirical analysis. The paper concludes with a discussion of the results and a summary of the study's implications, limitations and directions for future research.

2. Hypotheses

Competitive dynamics studies the use of competitive actions to obtain sustainable advantages and improve long-term performance. An action is an observable and specific move aimed at the exterior that a firm performs to improve its relative competitive position (Smith et al., 1989). Competitive actions help firms build resource endowments, establish market positions, and react to rivals' moves. Because this activity does not take place in isolation, constructing and sustaining competitive advantages requires a firm to embark on a series of actions that competitors must closely watch—if not directly counter (Chen and Hambrick, 1995). This line of research demonstrates that competitive actions affect the erosion of market share (Ferrier et al., 1999) and financial performance (Young et al., 1996; Lee et al., 2000; Yeung and Lau, 2005), along with firm reputation among stakeholders (Basdeo et al., 2006).

Firms use both market and non-market competitive actions to implement their strategies. Of the market actions that are effective at eroding pioneer advantage, Schnaars (1994) highlights product innovations, price reductions and promotions. Among non-market actions, Baumol (1993) stresses the importance of litigation. We shall go on to analyze the impact of each of these on the erosion of pioneer advantage.

Product innovation provides well-known competitive advantages (Bayus et al., 2003), some of which result from entering a market first. In service industries, however, pioneers must continue making improvements if they want to keep their advantage (Hipp and Grupp, 2005). But the situation is more complicated than this, because continuous product innovations allow follower firms to erode pioneer advantages more easily, particularly in technology intensive industries (Golder and Tellis, 1993). Empirical evidence confirms that technological improvements are an important source of competitive advantage for followers (Bohlmann et al., 2002). Shankar et al. (1998) show that new entrants who are innovators create a competitive advantage and grow more quickly than pioneers. Shamsie et al. (2004) find a positive relationship between the introduction of innovations by followers and market share. Lastly, Lee et al. (2000) confirm that the copying of new products completely erodes the shareholder wealth effect produced by the introduction of an innovation.

Follower firms that are able to introduce more innovations than pioneers, then, should be able to erode their competitive advantage.

Hypothesis 1. The more product innovation actions followers take in relation to pioneers, the bigger the erosion of pioneer market share.

Apart from product innovations, the use of price reductions and promotions may erode pioneer advantage by boosting a firm's own sales and impacting on those of its competitors. Promotions attract rival firms' consumers because they reduce the perceived risk of the unknown (Blattberg and Neslin, 1990), a common problem in start-up industries. This outcome is likely to make promotions a tool of choice for followers looking to take market share from pioneers. Shamsie et al.'s (2004) finding of a negative relationship between price and market share in follower firms confirms that this is the case.

Therefore, follower firms that reduce prices more often and run more promotional campaigns than pioneers should be able to take market share from them.

Hypothesis 2. The more marketing actions followers take in relation to pioneers, the bigger the erosion of pioneer market share.

Non-market actions include regulatory, legal and public relations moves (Spulber, 2003); they serve to complement – even replace – more conventional actions that are designed to implement a firm's strategy (Yoffie and Bergenstein, 1985).

Legal actions such as lawsuits, filing complaints with regulatory bodies and making public accusations against rivals are some of the most common non-market actions. These measures may be taken for different purposes, such as protecting rights, handicapping a competitor, or gaining a direct advantage (Baron, 1995). The decision to take legal actions, then, depends more on strategic than legal considerations (Shell, 2004). An illustration of this is the way private anti-monopoly suits have, in fact, delayed competition instead of promoting it (Posner, 1976).

Empirical research shows that filing lawsuits and making accusations against rivals in the press can be effective strategies. Markets react negatively to the news of legal action and punish the accused firm, but not the plaintiff (Koku et al., 2001). Research also shows that litigation between firms causes the defendant significant losses of wealth (Bhagat et al., 1998), and that most of these losses can be ascribed to the possibility of restrictions being placed on competitive behavior rather than the threat of fines (Bizjak and Coles, 1995).

Various explanations for these findings exist. First, the threat of legal actions can distract, delay, and impose additional costs on rivals (Koku and Qureshi, 2006) as it consumes resources and forces management to divert time from more productive efforts. This makes it a powerful weapon even if the resulting legal action is unsuccessful (Baumol, 1993; De Figueiredo and Spiller, 2000). Second, litigation can damage the reputation of the defendant (Field et al., 2005; Prince and Rubin, 2002). Williams and Barrett (2000) indicate that firms that violate regulations suffer reputation loss, while Karpoff and Lott (1993, 1999) find that nearly all the defendant's losses of wealth are caused by reputation loss and not by penalties and litigation costs.

Therefore, follower companies more active than pioneers in taking legal actions should be able to take market share from them.

Hypothesis 3. The more legal actions followers take in relation to pioneers, the bigger the erosion of pioneer market share.