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Competitive dynamics in an emerging economy: Competitive pressures, resources, and the speed of action

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ABSTRACT

In fast-paced markets, the speed of action is critical to gaining competitive advantage. Yet, who will act quickest to rise to emergent challenges and opportunities? We investigate this question of competitive dynamics by combining behavioral and resource-based theories of the firm to explore drivers particularly relevant in an emerging economy context. Our empirical study based on a survey in China finds that strategic growth actions are taken faster by firms with underperforming market share, strong technological capabilities and strong leader strategic competences. In contrast, strategic joint actions with other businesses are employed more speedily by firms under financial pressures but with strong leader strategic competences.

1. Introduction

In fast-paced emerging economies, flexible and timely strategic engagement in the market can be valuable for gaining competitive advantage. The more volatile the institutional environment and the faster the rate of growth, the more critical is the speed of action as a competitive parameter (Chang & Park, 2012; Gadiesh, Leung, & Vestring, 2007). Hence, the dynamic interaction between rivals, known as competitive dynamics, is important to explain the success and failure of firms in emerging economies (Chen & Miller, 2012). Yet, despite the importance of competitive speed in such contexts, few researchers have investigated competitive dynamics in China or other emerging economies (Cui, Meyer, & Hu, 2014). We address this gap by exploring the question: What drives firms to take speedy strategic actions in an emerging economy?

This question may be answerable by combing two lines of theory. The behavioral theory of the firm (BTF) provides insights into decision-makers' motivation to take actions, while the resource-based view (RBV) points to resources that enable firms to take actions. Researchers apply the RBV to competitive dynamics because firms need to mobilize resources to engage in competitive actions (Grimm, Lee, & Smith, 2006; Sirmon, Hitt, & Ireland, 2007). However, while resources enable competitive behavior, they do not necessarily trigger actions; sometimes firms with ample resources prefer their status quo over taking the risk of a strategic change (Audia, Locke, & Smith, 2000).

Actions are often triggered by pressures that decision-makers perceive in their external environment (Cyert & March, 1992). Specifically, the BTF suggests that firms performing below relevant benchmarks or below decision-makers' aspiration level are more motivated to initiate strategic change (Audia et al., 2000; Baum, Rowley, Shipilov, & Chuang, 2005; Park, 2007). In contrast, past success can lead to greater strategic persistence (Ferrier, 2001; Pacheco-De-Almeida, 2010). This behavioral perspective is particular critical for emerging economies where decision-makers often have to act without full information and rigorous analysis, which reduces the rationality of managerial decision-making.

Not all actions are the same. Consider two types of strategic actions: growth actions aim to enhance a firm's position in its markets, for instance by product launches or market entries. Joint actions create partnerships or mergers and acquisitions (M&As) with other firms and hence are the basis for new, joint positions. We argue that these types of actions are triggered by different types of performance pressures: firms facing set-backs in their pursuit of market share likely take growth actions to strengthen their market position, while firms with low profitability may lack the financial strength to take actions alone, and thus are likely to take joint actions to improve their financial position. Both types of actions are facilitated by firm resources, such as leader strategic competences. However, joint actions may be particularly suitable for firms that need to fill resource gaps.

The analysis in the present study contributes to the literature in three ways. First, the study contributes to the competitive dynamics literature (Chen, 1996) by demonstrating that combining behavioral- and resource-perspectives adds explanatory power to the analysis of strategic actions. In doing so, the present study extends the resource orchestration framework (Ndofor, Sirmon, & He, 2011; Sirmon

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et al., 2007) by adding competitive pressures as driver of strategic actions, and by incorporating leader strategic competences as a critical resource. Second, the present expands the concept of strategic actions by differentiating growth actions and joint actions, and by explaining how different aspects of past performance and capabilities drive these two types of actions. Third, the study contributes to the strategy research in emerging economies (Wright, Filatotchev, Hoskisson, & Peng, 2005; Xu & Meyer, 2013) by analyzing a phenomenon, the speed of strategic action, that is particularly important for business success in such contexts, yet hardly studied in emerging economies (Chen & Miller, 2012).

2. Competitive dynamics with Chinese characteristics

The competitive environment in emerging economies such as China is characterized by high internal and external uncertainties (Luo, 2003; Wright et al., 2005). Internal uncertainty arises from the reduced possibility to secure that business partners and employees act in the firm's best interest due to, for example, weak contract enforcement (Wang, Tsui, Zhang, & Ma, 2003). External uncertainty arises not only from macroeconomic volatility, frequent regulatory changes, and hard-to-predict law enforcement practices (Feldman, 2013; Peng, Wang, & Jiang, 2008), but from the frequency of entry and exit of competitors and changes in competitors' strategies. This fast pace of change intensifies competitive challenges: *first*, industry structures tend to be less stable, which may incur aggressive and disruptive competition (e.g., price wars) (Gadiesh et al., 2007; Williamson & Zeng, 2004); *second*, high market growth encourages firms to constantly expand their capacity to stay ahead of the competition (Bhattacharya & Michael, 2008; Ghemawat & Hout, 2008). Firms have to react more quickly to new opportunities and challenges to capture growth and profit potentials. Thus, the speed of strategic action is a key determinant of a firm's position in such markets (Chang & Park, 2012).

These uncertainties shape strategic decision-making processes. The RBV, like other economics based theories, assumes that firms make rational decisions in pursuit of efficiency and profitability (Peteraf, 1993). However, rational decision-making is constrained when external uncertainty increases bounded rationality (Simon, 1957), and internal uncertainty increases bounded reliability (Verbeke & Greidanus, 2009). In other words, decision-makers are unable to make fully rational decisions within the available time due to incomplete information, cognitive biases and causal ambiguity (Lippman & Rumelt, 1982; Peteraf, 1993). This has two consequences. First, we need to consider drivers of decision-making under conditions of constrained rationality (Cyert & March, 1992; Verbeke & Greidanus, 2009). The BTF emphasizes that firms can only achieve "satisficing" (rather than "maximizing") results due to limitations in human decision-making, which increase the more uncertain, volatile and competitive a market is (Cyert & March, 1992; Klossek, Meyer, & Nippa, forthcoming). Thus, we need to consider actual or perceived performance pressures arising from actual-versus-aspiration performance gaps. Second, to deal with these uncertainties and complexities, firms need capabilities that enable strategic and organizational flexibility to respond to changes (Tsui & Lau, 2002; Uhlenbruck, Meyer, & Hitt, 2003). The competence of top managers is one such capability, competence can shape the speed of firms' actions because top managers have to make decisions with partial information (Luo, 2003).

The speed of strategic actions can be critical to gaining market leadership in an emerging economy, and hence the present study focuses on the speed of strategic actions as our focal construct. However, the complexity of the competitive environment places additional demands on leaders, which suggests not only that we need to incorporate their capabilities in our framework, but that decision-making processes under conditions of bounded rationality and bounded reliability need to take a central place in our theoretical arguments.

3. Strategic actions

The competitive dynamics literature conceptualizes strategy as a repertoire of actions used by firms to enhance their market positions (Ferrier, Smith, & Grimm, 1999; Yu & Cannella, 2007). A strategic action is defined as "externally directed, specific, and observable competitive move initiated by a firm to enhance its relative competitive position" (Smith, Ferrier, & Ndofor, 2001: 12). We focus on action speed, which describes the speed by which a firm takes strategic actions, relative to the speed of its main rivals (Chen & Hambrick, 1995).

However, not all actions are alike; they serve different objectives and require different resources (Cui et al., 2014). We examine two types of strategic actions: growth actions and joint actions. Some actions are designed as foundation for organic growth, which we call growth actions. These actions aim to enhance market positions by creating growth opportunities through investing in new products and services, or entering new markets. When facing pressure on their market share, firms would want to improve product offerings and/or push into more markets. However, the implementation of growth actions requires technological and leadership capabilities.

Joint actions pool the resources of two or more partners through alliances or by engaging in M&As. Organizations that lack critical resources may use a partnership or an M&A to fill internal resource gaps (Hennart, 1988; Wang & Zajac, 2007), which lowers the risk compared to internal development of resources. In particular, when facing financial pressures, firms may team up with others to fund investment requirements. However, managing joint actions so that they benefit firm strategically requires leader strategic competences.

Growth actions and joint actions can complement or extend each other's domain as joint actions can be used as a means to facilitate growth actions, especially for firms that lack the ability to finance such actions on their own. However, joint actions may aim for longer term strategic goals beyond what growth actions are intended to achieve. The distinction of growth and joint actions thus enables a more fine-grained examination of the relationships between actions and their drivers. Specifically, we will argue that firms pursue growth or/and joint actions in response to performance pressures and internal resource availability.

4. Theory and hypotheses

4.1. BTF and strategic actions

The BTF acknowledges that actual decision-making and risk-taking behaviors deviate from the rational choice (March & Shapira, 1987). Specifically, managers' risk-taking behaviors are asymmetric to performance below and above their aspiration levels. Potential performance improvements are valued higher when operating below the aspiration level than while above that threshold. Managers thus are more inclined to take risk to recover from unsatisfactory performance than to pursue new opportunities when already performing satisfactorily (Bromiley, 1991; Cyert & March, 1992).

These postulates of the BTF suggest that firms' past performance directly impacts on current competitive behaviors. For example, Ferrier (2001) argues that performance *below* expectations motivates decision-makers to initiate competitive moves, a proposition empirically supported with respect to strategic moves such as market entry (Greve, 1998), process and technological innovations (Nohria & Gulati, 1996), and inter-firm collaborations (Baum et al., 2005). In contrast, managers in well performing companies tend to act more conservatively to protect their competitive *status quo* rather than to create competitive complications (Audia et al., 2000). Success may also breed complacency and dependence on established organizational routines and thus inhibit new strategic actions (Miller, 1994).

As managers respond to underperformance, they tailor their strategic actions to remedy the specific aspect of performance they are lagging. A