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The contingent value of marketing strategy innovativeness for product development performance in Chinese new technology ventures

Kwaku Atuahene-Gima [a], Haiyang Li [b,1], Luigi M. De Luca [c,*]

[a] China Europe International Business School (CEIBS), 699 Hongfeng Road, Pudong, Shanghai 201206, Peoples' Republic of China
[b] Jesse H. Jones Graduate School of Management, Rice University Houston, Texas 77005, United States
[c] Management Department, Bocconi University, Viale Filippetti, 9 20122 Milan, Italy

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Abstract

This study extends research on entrepreneurial behavior by investigating the relationship between the marketing strategy innovativeness (MSI) and new product performance in technology-based new ventures in China. Specifically, premised on contingent resource-based view we argue that MSI is a firm capability that must be bundled with external managerial relationships and be deployed in the appropriate environment to ensure its success. We found that the team's extra industry relationships and market dynamism enhanced the impact of MSI on new product performance. In contrast, top management team's intraindustry relationships, financial relationships, and technology dynamism hindered the impact of MSI on new product performance.

Keywords: Marketing strategy; Strategy innovativeness; Strategic decision-making; New ventures; Product development; Performance; China

1. Introduction

The vast majority of research on organizational innovation adopts a resource-based perspective that predicts positive returns to organizational resources and capabilities. This work has been restricted, however, to the narrow context of product innovation. Although product innovation enhances firm performance only when it is successfully commercialized, prior research tends to pay little attention to accompanying marketing innovations (Shervani & Zerrillo, 1997). The current study concerns a neglected, yet potentially positive entrepreneurial strategic activity — marketing strategy innovativeness (MSI) — which refers to the degree to which the marketing strategy which accompanies a new product differs from competing strategies and conventional practices (Andrews & Smith, 1996; Hambrick, Cho, & Chen, 1996; Menon, Bharadwaj, Adidam, & Edisonet, 1999; Sethi et al., 2001). Examples of MSI practices include the use of new packaging, new distribution methods and channels, new advertising media and content, ingenious pricing and payment methods. MSI ensures the new product enjoys a unique competitive position because it is radical, departs from the status quo, is proactive, unconventional and unpredictable (Andrews & Smith 1996; Hambrick et al., 1996; Menon et al., 1999). Thus, MSI is likely to strengthen the position of the new product in the marketplace above and beyond the value conveyed by its physical characteristics (Andrews & Smith, 1996).

MSI is classed as capability because it is the outcome of a firm's specialized knowledge, unique understanding of the environment and idiosyncratic processes (Eisenhardt & Martin, 2000).[2] As Verona (1999: 139) posits, the ability to creatively and imaginatively make strategic decisions regarding a product's development and its marketing are rent-generating routines that enhance performance. MSI may enhance product development performance by creating uncertainties for competitors through

* Corresponding author. Tel.: +39 02 5836 3703; fax: +39 02 5836 3790.
E-mail addresses: kwaku@ceibs.edu (K. Atuahene-Gima), haiyang@rice.edu (H. Li), luigi.deluca@unibocconi.it (L.M. De Luca).
[1] Tel.: +1 713 348 4194; fax: +1 713 348 6331.

[2] MSI can conceivably be also an input to new knowledge generation. For example, firms can learn from innovative pricing or advertising strategies and exploit this new knowledge across different product innovation projects. In this paper we do not pursue this direction; we rely on one cornerstone of the knowledge-based perspective (Grant, 1996) and conceptualize MSI as a higher order capability which is built on specialized knowledge owned by individuals within the firm.

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variation in the bases of competition (Eisenhardt & Tabrizi, 1995). Capturing the contribution of MSI at the product development level is also consistent with the idea that resources' contribution to performance should be investigated by disaggregating firm performance into processes which are less distal from the focal resources (Ray, Barney, & Muhanna, 2004).

However, Eisenhardt and Martin (2000: 1110) suggest that despite their value, capabilities are substitutable because there are multiple paths through which firms can acquire the same dynamic capabilities independent of other firms. Hence, capabilities may be necessary, but not sufficient, sources of *sustained* competitive advantage. This implies that a focal capability needs to be made inimitable through combination with other organizational skills and capabilities and deployment in the appropriate environment (Eisenhardt & Martin, 2000). As Barney (1991) argues, even though a firm's capability may be valuable, rare and inimitable, its ability to provide sustainable competitive advantage often lies in its configuration with complementary internal and external resources. Teece, Pisano, and Shuen (1997: 515) also argue that performance outcomes of a firm's capability depend on its management ability to deploy the capability in an appropriate environment. Finally, Porter (1991: 108) warns against internal focus on resources because the competitive value of resources can be enhanced or eliminated by changes in technology, competitor behavior or buyer needs.

Drawing on this contingent resource-based view of the firm,[3] we advance and test the idea that, particularly in new ventures in an emerging economic environment, the impact of MSI on new product performance is conditional upon its top management team's external relationships and environmental conditions. New ventures tend to have higher failure rates than established firms. Stinchcombe (1965) provided several reasons for this liability of newness. They have limited resources, lack of information processing structures, and stable links with clients, supporters and customers. Given their liabilities of newness, new ventures need to be creative and learn new roles and tasks and this may conflict with constraints on their resources. Moreover, as a form of first-moving, MSI is inherently risky (Ketchen, Snow, & Hoover, 2004). First, it takes time and resources (i.e., increased salesforce efforts) to educate customers to the new marketing strategy features; further, MSI can expose new ventures to strong and unpredicted reactions by incumbents; lastly, MSI can be imitated by competitors, who can capitalize on the early errors made by the new venture. These contrasting arguments reinforce the need to understand under which circumstances (i.e., on which internal and external contingencies) MSI will contribute to new product performance.

In contrast to developed market economies, the complexity and dynamism of the transitional environment in China means that firms must confront the challenges of new (often dysfunctional) competition and also collapsing capabilities (Li & Atuahene-Gima, 2001, 2002). Thus, scholars suggest that success in China market requires significant exploration involving experimentation and innovation (Luo, 2002; Luo & Park, 2001, p. 145). We contend that to sustain the viability of their innovative marketing strategies in China, new venture managers may need to leverage their external relationships. Research suggests that external relationships are particularly important sources of valuable resources and information that can augment firm performance in transitional economies like China (Park & Luo, 2001; Peng & Luo, 2000). Because of their liabilities of newness, we posit that a venture's top management team's external social capital (i.e., the ability to mobilize financial resources, information and support through external relationships with managers inside and outside the industry, and with officials of government and financial institutions) may determine the degree of success of MSI. In support of this idea, Lee, Lee, and Pennings (2001) found that external relationships with venture capitalists and universities enhanced the performance effects of the entrepreneurial orientation and technology capabilities of new ventures, respectively. Further, considering that the value of a firm's capabilities and resources is context specific (Eisenhradt & Martin, 2000; Porter, 1991; Teece et al., 1997), we propose that technology and market uncertainty will play an important role in the effectiveness of MSI.

This study contributes to the literature in three important areas. First it contributes to the abovementioned debate on the inherent value of MSI and its relationship with performance. For example, prior research has assumed a positive relationship between MSI and new product performance (Andrews & Smith, 1996). However, such an assumption tends to ignore the transaction costs associated with MSI and, more generally, overlooks the potential problems associated with the deviation from industry practices. Hence, determining *when* MSI will increase new product performance offers a direct test of the contingency view of internal firm capabilities espoused in resource-based theory (Barney, 1991; Teece et al., 1997). Second, despite recent theoretical developments (Blyler & Coff, 2003), few empirical studies model the firm's social capital as a potential complement of internal capabilities; this study extends our understanding by for the first time examining managerial relationships both inside and outside the industry, as called for by Peng and Luo (2000). Finally, this study extends and lends support to recent work that integrates resource-based and social capital theories as an explanation for new venture performance in the Chinese context (Lee et al., 2001).

2. Conceptual model and hypotheses

2.1. Resource-based theory and MSI in technology-based new ventures in China

According to the resource-based theory, performance differences across firms are the result of variance in their resources and

[3] It is important to specify that by mentioning RBV we do not refer to the neoclassic equilibrium-oriented stance (e.g., Barney, 1991; Peteraf, 1993). Rather, our approach is more consistent with a dynamic capabilities (DC) approach, which focuses on resource bundling, innovation and path-dependency (Teece et al., 1997). Despite this fact, we prefer using the expression "contingent resource-based view of the firm" to stress the point that resources' contribution to competitive advantage is dependent on internal factors (i.e., complementary resources) and external factors (environmental dynamics). We acknowledge one of the IMM reviewers for suggesting this point.