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Formulating Competitive Repertoires – Four Different Types of Competitive Actions

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Abstract
Do organizations have systematic patterns of competitive moves in a turbulent business environment? If so, how can organizations manage to maintain such competitive moves? The study of competitive moves deals with the very fundamental issues in strategic management - How do some organizations enjoy sustainable competitive advantages while others don't? Organizations may be lucky enough to align their strategic fit with the environment at the right moment. While different theoretical arguments (Grimm & Smith, 1997; Hoskisson et al., 1999) have been looking at the content aspects of competitive strategy, it has been less spotlighted with the process aspect on how firms strategically act to achieve sustainable competitive advantages in a competitive business environment.

Keywords: Competitive Repertoires, Competitive Actions, Industry Changes, Firm Performance

1. INTRODUCITON

Significant research progresses have been made in identifying the complex processes of firm-level competitive activities, but it is still incomplete to draw more compelling explanations on the relationship between firm's competitive activities and performance. More generalized empirical findings will also enhance the validity of assessing the competitive dynamics studies (Chen & Hambrick, 1995; Chen & MacMillan, 1992; Ferrier et al., 1999; Grimm & Smith, 1997; Miller & Chen, 1996; Smith et al., 1992). Competitive repertoires can be conceptualized as an organization's strategic 'play book', which contains a series of unique and/or sequential competitive actions and responses (Chen & McMillan, 1992; Miller & Chen, 1996). Firms utilize their competitive repertoires from different competitive conditions - firm's robustness of capabilities, firm's origin by services and market positions. This paper investigates with how four different types of competitive actions (Grimm & Smith, 1997) – Entrepreneurial, Ricardian, Deterrent and Co-optive - are formulated as competitive repertoires to influence the effectiveness of firm performance.

2. THEORETICAL FRAMEWORK

The proponents of resource-based view of the firm argue that competitive advantages are achieved through the ownership of scarce and valuable resources and a firm's manipulation of those resources (Barney, 1991; Grimm & Smith, 1997). However, resource-based view of the firm can be limited to a possible tautology between strategically relevant firm resources and competitive advantages (Priem & Butler, 2001). Chen (1996) sought for a conceptual link by proposing two firm specific, theory-based constructs in competitive dynamics - market commonality (from multi-market competition) and resource similarity (from the resource-based view of the firm). His two constructs explained the pre-battle competitive tension between two firms, and predicted how firms might interact with each other as competitors (Hoskisson et al., 1999). His theoretical approach gave more concrete understanding of competitive processes in dynamic environment.

On the other hand, evolutionary approach, taking Schumpeter's view of competitive advantage, is a quite different view from that of IO economics. Schumpeterian Economists argue that once a leading market position is won by alert competitive action: a leading firm inevitably finds himself dogged by imitators, that is, without further aggressive action of their own, all industry leaders will eventually succumb to the moves of more aggressive rivals (Ferrier & Smith, 1999).The key to competitive advantage is not the limitation of competitive forces as in the Porter's five forces framework or the exploitation of scarce resources as in the resource-based view of the firm, but rather firm's entrepreneurial discoveries and actions, often referred to "creative destruction" (Grimm & Smith, 1997). These Schumpeter's arguments on the competitive advantage have inspired a line of empirical works in the competitive action studies.

Evolutionary approach is used for explaining the organizational capabilities and points to a stabilizing role played by organizational routines. Organizational routines, according to Nelson & Winter (1982), are repetitive patterns of activities that can be described as multi-actor, interlocking, reciprocally triggered sequence of actions - major sources of the reliability and speed of organizational performance (Cohen & Bacdayan, 1994). The set of routines firms can perform in an appropriate environment can be derived from firm's competitive repertoires.

Additionally, Gnyawali et al. (2002) studied competitive dynamics through a research lens of network theory. They proposed that network resources influenced a firm's ability to undertake competitive actions, and that differences in network position among firms were indicative of resource asymmetries between them (Gnyawali et al., 2002). Because of such differences in network-based

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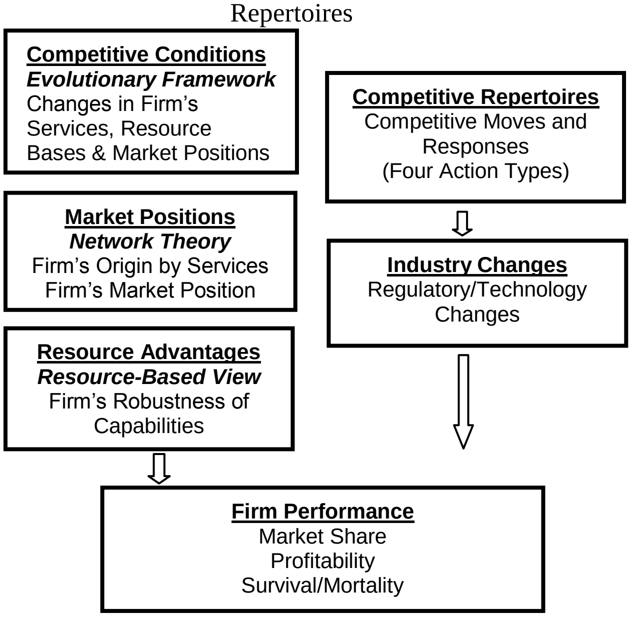
resource advantages, firms were likely to differ in both competitive activity (the number of competitive actions undertaken) and competitive variety (the range of competitive action types), and their data from the global steel industry supported that firm centrality was positively related to competitive activity and competitive variety, while constraint was negatively related to competitive activity and competitive variety (Gnyawali et al., 2002).

3. PROPOSITIONS

Do competitive repertoires really exist? If they do, how they work, what types of actions are used, and why firms choose one repertoire over others. As previously explained, some theoretical approaches assume that the pattern of subsequent moves are rationally initiated, however, many other examples show competitive repertoires are rationally bounded. Today's dynamic business environment requires firms to modify the ways they do business with others. Collectively, prior competitive dynamics studies generate a new thinking about how competitive repertoires are explicated in the dynamic nature of competition (Hoskisson et al., 1999), and the goal is to move toward a predictive theory of competitive behavior that has hitherto been lacking in the field of strategy (Miller & Chen, 1996). Competitive repertoires will be one of those constructs that helps to improve a predictive power as well as to provide a more profound understanding of competitive environment.

[Figure 1] Theoretical Framework - Competitive Repertoires



Proposition 1 (Industry Changes) *Industry changes, including both regulatory or technology changes, will influence firm's competitive repertoires*

Prior studies identify three external sources of competitive repertoires – market diversity, market growth and market uncertainty, and their empirical results are mixed (Chen & MacMillan, 1992; Chen & Hambrick, 1995; Chen, 1996; Ferrier et al., 1999; Ferrier, 2001). Industry changes can be important attributes for competitive behaviors since they provide asymmetric opportunities and threats for both incumbents and new entrants. Both technological innovation and deregulation have influenced on the competitive dynamics.

Firm's competitive repertoires will be determined by the firm's robustness of utilizing capabilities (Teece et al., 1997) in the course of industry changes. And the choices firms take among four different action types will vary depending upon the nature of competitive conditions in a specific industry segment. Ferrier & Smith (1999) develop four characteristics of leader/challenger competitive action aggressiveness that can be related to the firm's unique effectiveness of competitive repertoires - total competitive activity, action timing, action repertoire simplicity and competitive dissimilarity. Joshi et al. (1998) use Miles & Snow (1978)'s four typology to categorize the US telecom operators' alliance patterns. Chan-Olmsted & Jamison (2001) look at rivalry through alliances in global telecom industry. Their conclusion indicates that telecom operators have different alliance patterns depending upon their strategic orientations. Firms take initiatives for changes (Prospectors). By doing that, firms can take advantage of first-mover advantages and lead the market trends as they wish to be depending on their resource availability. On the other hand, firms attempt to locate and maintain a secure niche (Defenders). Also, firms react to the actions taken by competitors, a passive way of dealing with changes (Reactors). Lastly, firms wait and anticipate how market will be shaped in the future (Analyzers). Firms prepare for the possible future battle, but don't really take any visible attacks yet. They are just anticipating the market to evolve further or wait for competitors to act first. Expanding from these prior studies, there seem to have certain action types, or competitive repertoires of formulating and executing competitive activities, and competitive repertoires are determined by the firm-level competitive conditions - resource advantages and market positions.

Proposition 2 (Competitive Market Conditions) *Competitive market conditions - both resource advantages and market positions - will influence*

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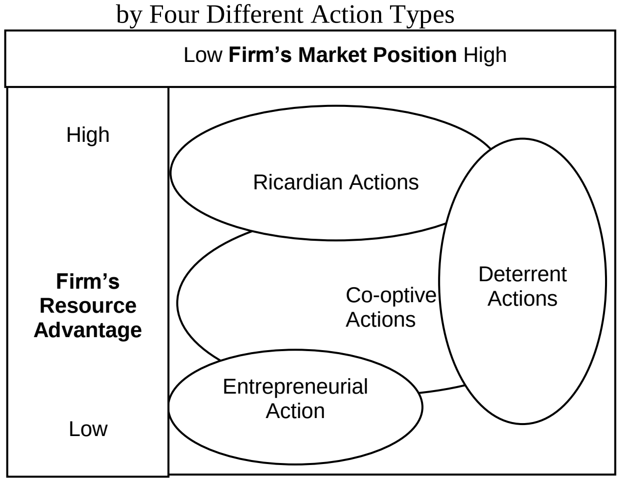
firm's competitive repertoire. Entrepreneurial action types will be preferred by firms positioned with less favorable resource advantages and market positions

Proposition 2-1 (Resource Advantages) *Firms positioned with significant resource advantages will prefer Ricardian and deterrent action types.*

Proposition 2-2 (Market Positions) *Firm positioned with strong market position will prefer deterrent and co-optive action types.*

[Figure 2] Competitive Conditions by Four Different Action Types

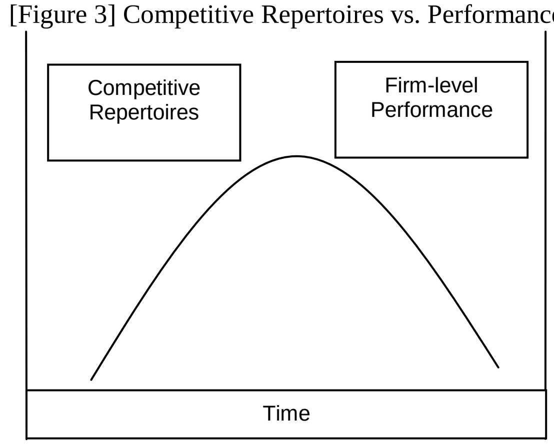


Grimm & Smith (1997)

Prior empirical studies try to test what attributes of competitive repertoires influence the overall performance. In particular, they focus on the relationships between competitive repertoire simplicity and firm's performance (Miller & Chen, 1996). Their results have been systematically short-sighted since instantly observed action variables may not effectively capture the longitudinal effects of firm-level performance. Prior studies argue that firm age and firm size are playing important sources in defining the firm's competitive repertoires (Chen & Hambrick, 1995; Miller & Chen, 1996). They assume that the existing, large-sized incumbents have more extensive and complex competitive repertoires than those of start-up, small-sized new entrants. Resource-based view of the firm argues that simplified repertoires give firms competitive edge by focusing their attention and efforts to develop unique, hard to copy skills that can be beneficial both in creating a competitive advantage and in building valuable and rare resources (Miller & Chen, 1996). Lumpkin & Dess (1995) also find that a simplistic strategy-making process is positively associated with performance during early stages of organizational development but detrimental to performance as organizations grow and mature in a dynamic and a heterogeneous environment. Miller & Chen (1996) find that the level of simplicity differs across industries, and it has an impact on organizational performance. They also assert that repertoires are shaped by different models of organizational adaptation in a different environment.

Proposition 3 (Competitive Repertoires vs. Performance*) Firms' action types competitive repertoires vary depending upon firm's age and size. When competitive repertoires are well adapted on a timely basis, firm-level performance will be higher, but show inverse U performance curve*

[Figure 3] Competitive Repertoires vs. Performance



4. FUTURE STUDIES

In order to help refining the research question(s) and to get a sense of the theoretical complexity of key constructs in this project, I will first compile the evidence of prior publications and the following paragraphs are brief summary of conceptual works that are directly related to this project's topic.

Competitive actions are externally directed, specific and observable competitive moves initiated by a firm to improve or defend its relatively competitive position (Chen & Hambrick, 1995; Chen & MacMillan, 1992; Ferrier et al., 1999; Grimm & Smith, 1997; Smith et al., 1992). They are also defined as any newly developed market-based moves that challenge the status quo of the market process (Jacobson, 1992; Nelson & Winter, 1982), intending to capture the Austrian view of competition as new, extraordinary, competitive behaviors (Ferrier et al., 1999). Nelson & Winter (1982) argue that firms remember by doing, therefore, firms take actions and evaluate the effectiveness of their actions constantly. Successful actions, defined as the ones that delay opponent's responses and generate sustainable advantages in the market, are reinforced into firm's action repertoires. By taking dynamic competitive

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interactions at individual action level, firms learn about the success of their actions and responses from their rivals and reinforce further action experimentation processes of unsuccessful (Grimm & Smith, 1997; Baum & Korn, 1996).

Then, how do firms know when to step back in a defensive position, and when to move forward in an aggressive position? From Porter (1980)'s first mover advantage arguments, timing and order of first movers' actions capture the largest portions of initial sales volume in the growing market, but their sales growth and market share will be at risk if not equipped with timely subsequent actions and responses. A series of balanced, effective and timely staged actions in a tightly fitted business environment are key characteristics for firm's long-term sustainable performance (Ferrier et al., 1999).

[Table 1] Characteristics of Four Different Action Types

Type of Action (Key Resources)	Strategic Intent	Propositions
Entrepreneurial (Entrepreneurial discovery)	Delay response by exploiting uncertainty	- Firms with resource disadvantages and a poor market position are more likely to undertake entrepreneurial actions than other types of actions - Entrepreneurial actions can delay competitive response when taken under conditions of uncertainty; the greater the competitive uncertainty surrounding the action, the greater is the delay in reaction
Ricardian (Factors (resources) of production)	Delay response by exploiting scarce resource, ownership and scarcity	- Firms with relative resource advantages are more likely to undertake Ricardian actions than other types of actions - Ricardian actions can delay competitive response by exploiting scarce resources; the greater the scarcity of the resource, the greater is the delay in competitive response
Deterrent (Market share and reputation)	Delay response by exploiting market power and intimidation	- Firms with strong market positions are more likely to undertake deterrent actions than other types of actions - Deterrent actions can delay response by exploiting intimidation and market power; the greater the reputation of the dominant firm for intimidation and market power, the greater is the potential delay in competitive response
Co-optive (Parity)	Avoid rivalry through tacit coordination	- Firms with no decisive resource advantages over rivals are more likely to undertake co-optive actions than competitive actions - Co-optive actions whereby firms signal and communicate their intentions and expectations may lead to co-optive reactions and less intense rivalry

Grimm & Smith (1997)

In order to analyze the interdependence between competitive actions and firm performance, it needs to be distinguished firm's competitive repertoires from firm's incidental events. While some actions are emerged, firm's strategic activities are purposely derived from their idiosyncratic competitive repertoires to achieve sustainable advantages. Also, if competitive actions do exist in some predictable patterns, it is also necessary to figure out when and what will trigger firms to change their patterns of competitive actions throughout the courses of firm's overall strategic activities. As indicated, depending on the nature of actions firms take, their consequences in the market will differ. To that respect, Grimm & Smith (1997) categorized four different action types - entrepreneurial, Ricardian, deterrent, and co-optive actions.

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