Journal of Business Research 78 (2017) 111–118

Contents lists available at ScienceDirect

Journal of Business Research

journal homepage: www.elsevier.com/locate/jbusres

Dysfunctional competition & innovation strategy of new ventures as they mature

Li Cai[a], Biao Chen[b,*], Juanyi Chen[a], Garry D. Bruton[c]

[a] School of Management, Jilin University, Changchun, Jilin 130025, China
[b] School of Business, Zhengzhou University, Zhengzhou, Henan 450001, China
[c] Department of Management, Entrepreneurship, and Leadership, Neeley School of Business, Texas Christian University, TCU Box 298530, Fort Worth, TX 76129, USA

ARTICLE INFO

Keywords:
Innovation strategy
Dysfunctional competition
Start-up
Entrepreneurial growth
Competitive advantage

ABSTRACT

Drawing on a sample of 288 new ventures from three disperse locations in China, we examine how dysfunctional competition impacts the innovation strategy of new ventures as they mature. Our results show that: 1) innovation strategy has a positive effect on new venture competitive advantage; 2) the impact of dysfunctional competition positively moderates this relationship in the early stages of the venture; 3) dysfunctional competition negatively moderates it as the venture matures. Thus, dysfunctional competition forces new ventures to focus on their resource shortages through innovation strategy. However, as these ventures mature, they accumulate greater resources, and dysfunctional competition acts to limit the firm's competitive advantage. With these findings, we contribute to the theoretical understanding of innovation strategy in a dysfunctional competition environment and how new ventures strive for competitive advantage in such a setting.

1. Introduction

Scholars have recognized that a firm's innovation strategy, the degree to which a new venture develops and introduces new products in the market, can improve the new venture's productivity and profitability (Li, 2001; Li & Atuahene-Gima, 2001; Tsai & Li, 2007), and ultimately the new venture's success (Dimitratos, Plakoyiannaki, Pitsoulaki, & Tüselmann, 2010; Lengnick-Hall, 1992; Teece, 2010; Zhou, 2006). However, innovation strategy does not occur in isolation as economic forces, including dysfunctional competition, affect the success of the new venture's strategy (Li & Atuahene-Gima, 2001; Sheng, Zhou, & Lessassy, 2013); dysfunctional competition is often defined as the behavior of a firm that is opportunistic, unfair, or even unlawful (Bruton, Su, & Filatotchev, 2016; Li & Atuahene-Gima, 2001; Li & Zhang, 2007). Particularly, in emerging economies, where formal market institutions are less developed, there are limitations to protect property rights, and dysfunctional competition has been identified as having a negative impact on a new venture's innovation strategy, and in turn, on the venture's performance (Jean, Sinkovics, & Hiebaum, 2014; Li & Atuahene-Gima, 2001). However, it has also been argued that for new ventures in emerging economies, dysfunctional competition is not always negative (Atuahene-Gima, Li, & De Luca, 2006) since dysfunctional competition can force a firm to become more focused and seek a more effective strategy (Du, Kim, & Aldrich, 2016) through greater innovative activities (Atuahene-Gima et al., 2006; Sheng et al., 2013). This research examines whether the potential impact of dysfunctional competition can, in fact, have a positive impact on new ventures in an emerging economy, and if so, at what point in the life of that new venture.

This examination of dysfunctional competition during different stages of a firm's evolution addresses the call of scholars for greater granularity in the study of new venture maturation, as such entities can vary widely as they age (Fisher, Kotha, & Lahiri, 2016; Miller & Friesen, 1984; Quinn & Cameron, 1983). For example, as new ventures mature, the resources they have access to or need, for that matter, may be very distinct (Leung, 2003; Leung, Zhang, Wong, & Foo, 2006; Mueller, Volery, & Von Siemens, 2012). It is reasonable, therefore, to assume that dysfunctional competition may have different effects on new ventures as they mature because of their different internal resource needs, resource availability, and firm objectives at different stages (Hite & Hesterly, 2001; Miller & Friesen, 1984). Thus, examining the impact of dysfunctional competition as a new venture matures enables a far more granular understanding of both dysfunctional competition and new ventures.

To address this issue of dysfunctional competition as a new venture matures, we draw on institutional theory (North, 1990), since we view the macro institution environment as the root cause of dysfunctional competition. Specifically, institutional pressure can influence a firm's

* Corresponding author.
E-mail addresses: caili2130@126.com (L. Cai), cb1512453@163.com (B. Chen), sunniechan1226@163.com (J. Chen), g.bruton@tcu.edu (G.D. Bruton).

http://dx.doi.org/10.1016/j.jbusres.2017.05.008
Received 10 July 2016; Received in revised form 9 May 2017; Accepted 10 May 2017
0148-2963/

strategic behavior (Oliver, 1997). In emerging economies, institutional pressure from underdeveloped formal institutions can be significant (Atuahene-Gima et al., 2006; Meyer & Peng, 2016; Sheng et al., 2013; Song, Di Benedetto, & Parry, 2009). To this end, we examine a sample of 288 new ventures operating in three cities in Mainland China (Changchun, Harbin, and Beijing), the dysfunctional competition these firms face, how the dysfunction affects their competitive positions, and how these effects differ in the early versus later stages of the new ventures.

Through this study, we make four valuable contributions to the literature. First, we develop theoretical insights into the dysfunctional competition and the fact that it does not necessarily negatively impact the relationship between innovation strategy and competitive advantage. Second, we contribute to a greater understanding of entrepreneurship by examining the impact of dysfunctional competition on new ventures. Third, we specifically address the recognized need for such an understanding of entrepreneurship in emerging economies (Bruton, Ahlstrom, & Obloj, 2008; Liu, Luo, & Shi, 2003; Manolova, Eunni, & Gyoshev, 2008). Finally, we provide strong empirical evidence that an innovation strategy fosters a competitive advantage in an emerging economy, meeting the call for further research on understanding innovation strategy in emerging economies (Iyer, LaPlaca, & Sharma, 2006; Li & Atuahene-Gima, 2001; Lu, Tsang, & Peng, 2008).

2. Theoretical background

2.1. Foundations

Scholars frequently highlight the role of innovation strategy in creating new markets, which in turn forms a foundation for firm success (De Clercq, Menguc, & Auh, 2009; Rosenbusch, Brinckmann, & Bausch, 2011; Zhou, 2006); innovation strategy is the degree to which a new venture develops and introduces new products in the market (Li, 2001; Li & Atuahene-Gima, 2001; Tsai & Li, 2007). However, there are numerous external and internal factors that can impact innovation strategy including competitive pressure, demand uncertainty, technological turbulence, firm age, and organizational culture (Naranjo-Valencia, Jiménez-Jiménez, & Sanz-Valle, 2011; Rosenbusch et al., 2011; Sheng et al., 2013; Zhou, 2006). More recently, scholars have focused particularly on one key external factor that has a strong potential impact on innovation strategy, particularly in emerging economies, and that is dysfunctional competition (Jean et al., 2014; Li & Atuahene-Gima, 2001; Zhang, Zhao, Voss, & Zhu, 2016).

In general, emerging economies can be characterized by having underdeveloped formal market institutions (Luo, Wan, Cai, & Liu, 2013; Manolova et al., 2008; Peng & Su, 2014; Sauerwald & Peng, 2013). This institutional void can, in turn, lead to dysfunctional competition (Du et al., 2016; Li & Zhang, 2007), or "the extent to which the competition in a firm's environment is opportunistic, unfair, or even unlawful" (Li & Zhang, 2007, p. 794). Accordingly, dysfunctional competition is often seen as a key characteristic of emerging economies and has been shown to have a significant impact on a firm's behavior (Qian, Cao, & Takeuchi, 2013; Zhao, Erekson, Wang, & Song, 2012). For example, there is evidence that dysfunctional competition can moderate the relationship between innovation strategy and competitive advantage (Li & Atuahene-Gima, 2001; Sheng et al., 2013).

However, while theoretically appealing, to date the empirical evidence of the moderating effect of dysfunctional competition on innovation strategy has been ambiguous. Some scholars have argued that the impact of dysfunctional competition is negative (Jean et al., 2014; Li & Atuahene-Gima, 2001; Li & Zhang, 2007; Qian et al., 2013); in such a situation, innovative products cannot be effectively protected, thus, value is eroded in the presence of dysfunctional competition (Li & Atuahene-Gima, 2001). On the other hand, some have argued that dysfunctional competition fosters innovation since it can force new ventures to compete with established firms more effectively (Atuahene-Gima et al., 2006; Sheng et al., 2013). Thus, there is no clear view of dysfunctional competition as either a deterrent or a boost to innovation strategy. To develop this clarity, we delve deeper, specifically, into how dysfunctional competition may impact new ventures. We focus here on new ventures since resource constraints among entrepreneurial new ventures can clarify the impact of dysfunctional competition on innovation strategy.

2.2. Dysfunctional competition and new ventures

New ventures often face difficult odds of survival due to the liability of newness (Li & Zhang, 2007; Saxton, Wesley, & Saxton, 2016) and the liability of smallness (Bruderl & Schussler, 1990; Hite & Hesterly, 2001). The liability of newness and smallness have detrimental effects on new venture survival and development in part because new ventures face resource constraints such as lack of legitimacy (Atuahene-Gima et al., 2006; Bruton & Rubanik, 2002; Delmar & Shane, 2004; Zimmerman & Zeitz, 2002) and insufficient financial resources (Chrisman, Bauerschmidt, & Hofer, 1998; Khaire, 2010). The lack of legitimacy leads to unstable links with customers (Delmar & Shane, 2004; Li & Zhang, 2007; Shepherd, Douglas, & Shanley, 2000), and the costs of commercializing new products are high and time-consuming (Haeussler, Patzelt, & Zahra, 2012; Martínez Sánchez & Pérez Pérez, 2003). Therefore, new ventures need to access more resources by interacting with outside stakeholders to compete with established firms (Delmar & Shane, 2004; Hite & Hesterly, 2001; Semrau & Werner, 2014).

However, founding a new venture is a dynamic process in which a new venture's nature and resources change over time (Cope, 2005; Miller & Friesen, 1984; Smilor, 1997). The different resources typically needed and present in a new venture as it matures means that dysfunctional competition may have different effects on its strategic behavior in different development stages as well. Previous research has neglected to focus on the maturation stages of new ventures when considering dysfunctional competition. Instead, scholars have typically only focused on dysfunctional competition among new ventures as a dichotomous variable—whether dysfunctional competition is present or not. Here, we bring greater granularity and understanding to the knowledge of dysfunctional competition by focusing on its impact at various stages as the new venture matures and by examining how these may differ.

There are two key stages in the maturation of a firm: the start-up and growth stages (Leung, 2003; Leung et al., 2006). At the start-up stage, a new venture does not generally receive legitimacy from external customers or stakeholders since the new venture is commonly viewed as risky due to what is often a vulnerable position in the market (Delmar & Shane, 2004; Li, 2001; Li & Kozhikode, 2008). The main goal of the new venture at this early stage is to survive (Leung et al., 2006) by attracting customers, developing technology, and delivering products (Delmar & Shane, 2004; Mueller et al., 2012). Later in the new venture's maturation cycle, as it enters a growth stage, the firm commonly becomes larger with a more established organizational structure (Wasserman, 2006), greater resources, and greater acceptance in the market (Miller & Friesen, 1984). Therefore, new ventures at the start-up stage of their existence need different resources to support continued survival compared to a later growth stage (Hite & Hesterly, 2001). Building on this insight, we examine how dysfunctional competition could moderate innovation strategy as a new venture matures.

3. Hypotheses

3.1. Innovation strategy and competitive advantage

Innovation strategy refers to the degree to which a new venture