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Matching response to competitors' moves under asymmetric market strength

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ABSTRACT

This paper investigates a firm's inclination to match a rival's strategic move under asymmetric market strength. Drawing from the awareness-motivation-capability framework, we theorize that a firm is more likely to match modestly weaker competitors to sustain its current lead and match modestly stronger competitors to eschew lagging further behind; conversely, a firm is less likely to match far weaker competitors due to its lack of attention and match far stronger competitors due to its inability to compete. Event history analysis of a set of IT companies' entry moves into various locations in China exhibits support for our hypotheses. Our findings suggest that a firm's matching response most often occurs under a moderate level of asymmetric market strength.

1. Introduction

A central topic in the strategy literature concerns competitor analysis: that is, who competes with whom in an industry. Early works on this subject drew mainly from industrial organization economics to study competition at the industry level. This approach implicitly assumes that all firms in the same industry are de facto competitors. Later studies distinguished between different strategic groups in an industry and suggested that firms belonging to the same strategic group are apt to identify one another as competitors (Duan & Jin, 2014; Panagiotou, 2007; Short, Ketchen, Palmer, & Hult, 2007). Although these studies provided an essential foundation for competitor analysis, it has been noted that they cannot fully account for intra-industry heterogeneity in interfirm rivalry. Hence, strategy research in competitive dynamics (Chen & Miller, 2012) proposed to conduct competitor analysis from the perspective of an individual firm with reference to a specific rival.

This firm-centric, rival-specific approach has contributed to refined analysis of interfirm competitive relationships (Chen, 1996). One notable observation is that the competitive tension that a rival exerts on a firm is often different from the tension that the focal firm exerts on that rival. Scholars have long acknowledged such an asymmetry in a competitive relationship (Carpenter, Cooper, Hanssens, & Midgley, 1988), and subsequent development in analytical techniques helped researchers to better capture asymmetric competitive relationships. For instance, Chen (1996) and Peteraf and Bergen (2003) compared two firms in terms of their differential positions in overlapping product markets and resource types. DeSarbo, Grewal, and Wind (2006) examined customers' (revealed) preference and posited that customers might view one company's offerings as substitutes for another company's offerings but not the other way around. Albeit with differences in the analytical approach, these studies all uncovered that asymmetric competitive relationships are manifested in a variety of business contexts, including airline, automobile, and mobile phone industries.

Besides these efforts at identifying asymmetric competitive relationships across diverse settings, however, how such relationships affect interactive firm behavior remains understudied. To address this gap, we consider the potential influence of asymmetric competitive relationships on a firm's *awareness* of a rival's actions, *motivation* to react, and *capability* to carry out a response effectively. These three behavioral drivers are summarized as the awareness-motivation-capability (AMC) framework (Chen & Miller, 2012). Beyond existing research that highlights the existence of asymmetry in competitive relationships, we distinguish between varying levels of asymmetry, identify the primary behavioral driver underneath a given level of asymmetry, and demonstrate the corresponding behavioral consequences.

In our examination of the behavioral implications of asymmetric competitive relationships, we focus on a specific form of interactive market behavior: namely, a firm's matching response to a competitor's entry into a new (geographic) location. Various literature traditions have investigated a firm's inclination to match, or to imitate, a rival's strategic move (Lieberman & Asaba, 2006). Some studies found that a firm is more inclined to model rivals with superior market position (e.g., Haunschild & Miner, 1997), other studies suggested that a firm is more likely to imitate rivals possessing a comparable competitive position (e.g., D'Aveni, 1994; Peteraf, 1993), and still other studies

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showed that a firm is apt to follow relatively weaker rivals (e.g., Hsieh, Tsai, & Chen, 2015; Terlaak & King, 2007). We will argue and show that these seemingly contradicting findings in the literature can be consolidated through distinguishing between the primary AMC factors associated with different levels of asymmetry in a competitive relationship.

In analyzing asymmetric competitive relationships, we focus on competing firms' asymmetric market strength in their shared product markets. Accordingly, we theorize that a firm is more likely to match modestly weaker competitors to sustain its current lead and match modestly stronger competitors to eschew lagging further behind; conversely, a firm is less likely to match far weaker competitors due to its lack of attention and match far stronger competitors due to its inability to compete. We test our idea in the context of a set of IT companies' entry moves into various locations in China, and find empirical support for our conjecture. Taken together, the theory and findings presented in this paper advance the competitor analysis literature by demonstrating that asymmetry in a competitive relationship matters not only because it exists—as prior studies have shown—but also because it affects interactive firm behavior.

2. Conceptual background

2.1. Location decision

A sizable volume of literature has examined firms' decision to enter an overseas location. Concerning where firms locate their overseas investment and business activities, the literature has identified three types of determinants: local conditions in a target location, capabilities of a parent firm, and firm-location fit (Nielsen, Asmussen, & Weatheralld, 2017). Local conditions such as institution environment, industry infrastructure, products demand, and supply of production factors and strategic resources determine the general attractiveness of a target location (Beugelsdijk & Mudambi, 2013). Technological, marketing, and management capabilities of a parent firm lay the foundation of competitive advantages that the firm can potentially leverage overseas (Kirca et al., 2011). Finally, a higher similarity between a target location and a parent firm's home environment increases firm-location fit and facilitates the firm to leverage its current advantages across geographic boundaries (Rugman & Verbeke, 2004).

Location decision has important implications for interfirm competition. Rivals entering an overseas location might benefit from unique local conditions (e.g., attractive production factors, growing demand, and supporting infrastructure) and thereby enhance their competitive position relative to non-entrants; to avoid lagging behind rivals in the pursuit of overseas opportunities, a firm is under pressure to respond to rivals' entry moves (Head, Mayer, & Ries, 2002; Lieberman & Asaba, 2006). In what follows, we will examine how asymmetry in a competitive relationship affects a firm's inclination to respond by matching a rival's entry move and entering the same location.

2.2. Asymmetric market strength

Asymmetry arises in a competitive relationship when two firms exert differing competitive tension on each other. In analyzing competitive relationships, scholars have utilized a range of indicators including firms' market and resource profiles as well as customers' (revealed) preferences (Chen, 1996; DeSarbo et al., 2006; Peteraf & Bergen, 2003). Among these indicators, a firm's market profile is usually most visible to managers and thus is more likely to have a direct impact on how managers evaluate and act upon their company's asymmetric competitive relationship with a rival. As prior research has shown, an easily observable indicator of competitive relationships typically exhibits greater influence on rivalry behavior (Chen & Miller, 2012). The task of monitoring and evaluating numerous competitors is highly demanding for managers with limited attentive capacity; it may even become infeasible if managers attempt to base their assessments on certain indicators that are difficult to process (Hsieh & Hyun, 2016). In a multimarket environment, one critical factor that attracts mangers' attention concerns other firms' presence in those markets that are particularly important to the focal firm (Chen, 1996; Peteraf & Bergen, 2003).

Therefore, we conceptualize (and measure) asymmetry in a competitive relationship with a focus on firms' product market profiles. Following Chen (1996), we use *market commonality* as an indicator of market strength. Firm A's market commonality with firm B indicates B's presence in the markets that are important to A. Accordingly, we define the *asymmetry in a competitive relationship* as the situation in which firm A's market commonality with firm B exhibits non-trivial difference with B's market commonality with A. That is, asymmetry arises when a competitor's presence in the shared markets is notably stronger or weaker than a focal firm's own presence in those markets. By contrast, symmetry in a competitive relationship can be said to arise when the presence of a pair of firms (i.e., a focal firm and a given rival) in their overlapping markets is (nearly) identical.

2.3. The awareness-motivation-capability perspective

In developing our argument, we utilize the awareness-motivation-capability (AMC) framework, which was first advanced by competitive dynamics research (Chen & Miller, 2012) and has recently been adopted in a wider range of studies (e.g., Angeli & Jaiswal, 2015; Keil, Laamanen, & McGrath, 2013; Nair & Selover, 2012; Peng & Liang, 2016). Following the AMC approach, we reason that a firm will match a rival's move when it is aware of that move, feels motivated to react, and is capable of carrying out an effective matching response. In the context of a firm's entry into a new location, we define matching response as the correspondence between a rival's recent entry move and a focal firm's inclination to enter the same location.

We highlight a rival's 'recent' move because a move occurring in the distant past, once being considered a part of the *status quo*, is less likely to elicit additional competitive tension and new response. Also, focusing on a rival's recent entry move helps us to distinguish competitive interplays in the form of action and response (or research focus) from agglomeration economies, which tend to be the result of the accumulated investments made by various firms over a longer time span.[1]

2.4. Different levels of asymmetry

When managers judge their company's competitive relationship with an industry rival as being asymmetric, they can further assess the size of the asymmetry. Accordingly, we account for the *level* of asymmetry in a competitive relationship, which captures the level of difference between firm A's market commonality with firm B and B′s market commonality with A. More generally, the level of asymmetry between a pair of competing firms refers to the size of the two parties' differential strength in their shared markets. Drawing from the AMC framework, we will examine how varying levels of relative market strength affect a firm's likelihood of matching a rival's entry move.[2]

[1] Empirically, we include a comprehensive set of control variables (listed in Table 1) to account for potential agglomeration economies as well as other factors that can affect the general attractiveness of a location.

[2] In predicting interactive firm behavior using market commonality-based indicators (Chen, 1996)—including the asymmetry concept we define here—an implicit assumption is that strategic decisions across multiple product markets are coordinated at the corporate level. This assumption reasonably characterizes those focused firms specializing in an industry consisting of multiple, highly related market segments (as in our empirical context). By contrast, this assumption is less applicable to large and highly diversified firms, who often operate multiple business units as semi-autonomous profit centers with own decision-making authority.

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