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EXECUTIVE SUMMARY

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ABSTRACT

My dissertation focuses on how firms compete effectively in new markets, and explores several strategic issues faced by firms in these contexts. These include how firms strategically interact with their rivals, how they quickly and efficiently craft successful strategies and develop viable business models, and how they successfully position themselves as the cognitive referent in the new market they are creating. While prior research has examined many of these issues in the context of established markets, my research investigates new markets and traces the activities of entrepreneurial rivals. Through an in-depth, longitudinal field study of five firms in the online investing market, I develop new theory to explain how firms successfully achieve these objectives.

Introduction

This research focused on how firms compete effectively in new markets, and explored several strategic issues faced by firms in these contexts. These include how firms strategically interact with rivals, how they quickly craft successful strategies and develop viable business models, and how they position themselves as the cognitive referent in a new market they are creating. While prior research has examined established markets, my research investigated new markets and documented the activities of entrepreneurial rivals. Through an in-depth, longitudinal field study of five firms in the online investing market, I developed new theory to explain how firms successfully achieve these different strategic objectives.

The study of competition and strategic interaction has a history in game theory, in competitive strategy, and in organization theory. In my review, I identified three distinctive features of competitive interactions and summarized key findings on how established firms compete against one another in existing markets. Based on the review, I argued that a primary research opportunity for the fields of strategy and entrepreneurship was in exploring how firms strategically interact with their competitors in new market contexts and why some do so more effectively. To justify my study, I argued that the nature of competition and strategic interaction was likely to be very different for new markets for several reasons.

First, unlike established markets, new markets are characterized by an undefined structure, unclear products and features, and extreme ambiguity about opportunities and customer demand. The absence of a dominant, industry logic makes it difficult to evaluate which actions are appropriate or effective. Costly commitments or overly aggressive moves may undermine firm performance in such markets, especially if unanticipated opportunities arise or customer demand suddenly shifts. Firms may instead enact small, low-cost moves to experiment

and still retain their flexibility. Besides their ambiguity, new markets also begin with depressed legitimacy, and firms may also need to act collectively to legitimate an entire market to several constituencies (e.g., customers, resource providers, and partners) *and* attempt individually to capture opportunities therein. These potentially conflicting strategic objectives are likely to require different types of symbolic and material actions, such as those aimed at creating markets and developing business models.

Another reason to expect competition to look differently in new markets has to do with the types of firms that often compete in those markets: entrepreneurial firms. Unlike established firms, entrepreneurial firms possess few resources and lack market power. They are unlikely to make costly commitments or to launch aggressive pricing and advertising campaigns against one another. Instead, entrepreneurial firms may use their limited resources to develop products and test business models, or to establish themselves to relevant audiences. Moreover, due to their small size and the rapidly-evolving markets they face, new firms may lack the managerial resources to identify and persuade many powerful actors to support their model of organizing, opting instead to target those who are easier to convince and faster to mobilize. These strategies are expected to evolve as firms grow and acquire more resources. At least early on in new markets, strategic interaction may not resemble the optimal commitments of game theory, nor the aggressive actions and reactions of competitive dynamics, nor even the persuasive efforts of institutional opposition. Rather competition may be an ongoing process that involves a variety of actions made over time as the new market evolves – actions that are both available to new firms (that they have the resources to enact) and that are likely to be effective at a given stage of market development.

Based on the rationale developed in my dissertation and summarized above, I argued that studying interactions among competitors in new markets was important given that the findings from prior research were unlikely to generalize to these contexts. My dissertation examined this topic and asked: *How do firms compete effectively in new markets*. As part of this encompassing question, my research sought (1) to develop a clearer conceptual understanding of the nature of competition and strategic interaction in new markets and (2) to empirically document the actions and sequences that lead some of these firms to compete more (or less) successfully than their rivals.

Methods

Given the limited prior theory on how firms compete effectively in new markets, I selected an inductive multiple-case study research design. My approach relied on rich, field data, which have the potential for uncovering mechanisms and tracing processes over time. Field-based inquiry provides an additional benefit here, namely, the ability to study new markets, which are difficult to observe with archival sources. The empirical setting was online investing, an emergent Internet sector at the convergence of online social networks and financial investments. It was an ideal context for several reasons. First, a small number of similar rivals founded and launched products at about the same time. I was thus able to track a new market's evolution from its inception and examine how firms compete more (or less) successfully. With the rise of social networking (e.g., Facebook, MySpace etc.), several entrepreneurial teams recognized a similar opportunity – to apply the ideas and technologies of social networking to investing. Each wanted to create an online social network geared to investors.

For my sample, I selected all five entrepreneurial firms that were founded in 2007 when the market emerged. The chosen firms were founded at around the same time, had similar resource profiles in terms of financial backing and human capital, and shared the same goal of developing a significant, profitable business that would define the market. Pilot interviews confirmed that these firms were aware of one another and viewed the others as potential competitors. There were two attractive features of this market: (1) It was unclear whether the market was viable, and so retrospective bias was avoided and (2) It was fortuitous that the firms' activities centered on two primary strategic objectives. The first was developing a viable business model and the second was becoming the market's cognitive referent. The two objectives served as a natural marker for what it meant to compete effectively in the new market, and firms took different approaches in trying to achieve them.

Findings

Chapter 3 introduced the first theoretical framework explaining how firms win the race to develop a viable business model. As the new market emerged, high performing firms enacted three strategies in sequence, which helped them get to a business model quickly and efficiency. First, executives attended to substitutes and copied from rivals. Next, they actively tested assumptions and made major resource commitments to high opportunity business models. Finally, they maintained loose links in the organizational activity system to accommodate emergent sources of value. The resultant middle range theory has implications for research on competition in new markets and the strategic processes of developing business models.

Chapter 4 laid out the second theoretical framework explaining how some firms become the cognitive referent in new markets while others fail to do so. Although prior research has

shown that firms engage in rhetoric and symbolic activities to create new markets, I analyzed how entrepreneurial firms use the same cultural strategies to position themselves in a new market they are creating. Successful firms conceptualized market creation as problem solving and followed a sequence that began with narrowly directed rhetorical attacks aimed at current solutions, progressed to shifting stories to coincide with emergent logics, and culminated with eschewing labels that audiences attached to them as these firms introduced novel products to the market. By contrast, unsuccessful firms undermined their own positions through improper use of symbolic market creation activities. The resultant theory is relevant to the literatures on cultural strategy and the performance of entrepreneurial firms.

Both theoretical frameworks have implications for research and practice in strategy and entrepreneurship. The first framework suggests there is some theoretical purchase to conceptualizing new markets as a race among similar competitors, each striving to reach a successful strategy, that is, a viable business model, ahead of the others. To get there, the successful entrepreneurial executives copied from and built off of rivals' products rather than differentiating from them; they accommodated new (unforeseen) opportunities rather than aggressively exploiting (known) existing opportunities; and they committed to lucrative business models whose assumptions had been thoroughly vetted through purposive testing. From a conceptual standpoint, competition in the new online investing market resembled neither the economics of rivalry nor collective action, but rather a form of interaction more akin to "parallel play." The entrepreneurial executives who understood and used that logic to guide their actions ended up getting to a viable business model more quickly than rivals did.

The second theoretical framework suggests that simply being involved in creating a new market is not necessarily an indicator of one's ultimate position within that market. Successful

entrepreneurial firms must also strive to become the cognitive referent. Paradoxically, in the entrepreneurial firms that achieved this objective, executives were not overly concerned with the grand task of market creation, but rather conceptualized market creation as activating a latent problem, one that customers already had. Their rhetorical attacks were more narrowly directed at current solutions; their founding stories were more flexible to allow for an inevitable revisionist re-telling that mirrored changes in the market; and their labels reflected purposeful control rather than unplanned acquiescence to external audiences. My research indicates that entrepreneurs must be skilled cultural operatives – drawing from broader cultural themes (e.g., democracy and capitalist institutions) to chain together a series of symbolic activities that position their firm as the new market's cognitive referent. But the strategy is a fragile one, fraught with uncertainty, especially since failure in either content or sequence of these activities can ultimately undermine individual firms even while aiding in the emergence of new markets.

Implications

Finally, strong normative implications emerge from this research, which may be useful for firms trying to navigate new markets. For example, business courses and strategic advisors counsel executives to conduct a thorough competitive analysis emphasizing points of differentiation. But for new markets, reports of the threat posed by similar startups are 'greatly exaggerated,' and executives may be well-advised to use these rivals as stepping stones to speed their own progression and keep costs low. Similarly, while the media tends to laud market 'evangelists' who open up new market space through symbolic acts of persuasion, successful entrepreneurship is more like problem-solving than missionary work. Thus, executives may be better off riding the coattails of these evangelists to establish a defining position in the market.