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Imitation as an Organizational Competitive Strategy for Growth and Sustainability

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Abstract

Institutional theory suggests that firms imitate other firms with ideal traits, whereas the strategic scholars' literature on imitation suggests firms imitate similar firms. Broadly, Imitation can be described as the drive of a competitor to replicate a company's successful business model in terms of the introduction of new products and processes, in the adoption of managerial methods and organizational forms, and in market entry and the timing of investment. This paper reviews literature on theories that support imitation strategy, when imitation is the best strategy, how imitation help market leaders to stay ahead and how it affects new market entrants. Findings from literature review suggest that imitation as a strategy has continued to shape the competitiveness in modern corporations. Strategies that are largely based on imitation have seen the shakeout and emergence of new innovations and dominant technologies over time. Imitation of products, process, and technology has also led to improved industry standards. The paper recommends that firms opting for imitation business models should do it innovatively and ethically to attain healthy competition in the market place. It further argues that successful imitation rather than innovation may be a better way to sustain the business in an environment that is uncertain and pervaded with stiff competition. Even better, borrowing ideas from others and combining that with own creativity, can build strong competitive advantages for businesses that would otherwise be pushed out of the play field.

Key words: ***Imitation strategy, organizational competitiveness***

Introduction

Customer Attitudinal Loyalty – An Overview

Very often, the success of a new and unique product feature leads to a flurry of imitative brands (Gordon, Calantone & Anthony di Benedetto, 1991). Scholars observe that imitation influences organizations' choice of market positions, use of technological innovations, product strategies (Brouthers, O'Donnell, & Hadjimarcou, 2005), and organizational structures (Feng & Wang 2010). Also, Galaskiewicz and Wasserman (1989), and Sanders and Tuschke (2007) posit that charitable giving, and compensation are also impacted by imitations. Of great interest is the argument that imitation drives the opening of branches in market niches, choice of market locations, international market entry and rates of market entry (Greve, 2000; Fernhaber & Li,2010).

According to Asaba and Lieberman (2004), market environments are often highly uncertain and subject to frequent changes. Predicting a competitor's next move can be difficult, if not impossible. Waiting until these uncertainties are resolved may not be an option. In such settings, businesses have to make short and long-term

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decisions that take competition into account, while aligning these decisions with their own internal capabilities and technological position.

Though imitation strategies are often negatively associated with 'copycat' tactics, insights from literature provide managers with new arguments that illustrate the benefits of imitation as a competitive strategy. By developing mechanisms that take different types of contingencies of competitive interactions into account, this paper advances theories that explain the performance outcomes of competitive dynamics. Scholars from diverse disciplines have proposed numerous types of business imitation. This paper organizes types of imitation into two broad categories: information-based, where firms follow others that are perceived as having superior information and rivalry-based, where firms imitate others to maintain competitive parity or limit rivalry.

General Objective

The purpose of the study is to review literature on imitation as a business strategy in a competitive market.

Specific Review Questions

i. What is the theoretical foundation of imitation?

ii. When is imitation the best strategy?

iii. How does imitation help market leaders stay ahead?

iv. How does imitation affect new market entrants?

Theories of Imitation

The author has organized the theories of business imitation into two broad categories: (1) information-based theories, where firms follow others that are perceived as having superior information, and (2) rivalry-based theories, where firms imitate others to maintain competitive parity or limit rivalry.

Information-based Theories of Imitation

Information-based theories of imitation have been proposed in the fields of economics, institutional sociology and population ecology. According to Asaba and Lieberman (2004), these theories apply in environments where managers cannot assess connections between actions and outcomes with great confidence. Thus, managers may be unsure of the likelihood of possible outcomes, and they may have more fundamental difficulties recognizing cause-effect relationships and the full range of potential consequences. In such environments of uncertainty and ambiguity, managers are particularly likely to be receptive to information implicit in the actions of others. Such information, while highly imperfect, can have a strong influence on managerial perceptions and beliefs. Furthermore, in uncertain environments managers may imitate to signal others about their own (or their firm's) quality.

Institutional Theory

Organization theory gives a related explanation for behavioural similarity: institutional isomorphism. DiMaggio and Powell (1983) argued that rational actors make their organizations increasingly similar when they try to change them. This process of homogenization is captured by the concept of isomorphism. Isomorphism is a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions.

Among several kinds of institutional isomorphism, mimetic isomorphism is the process whereby organizations model themselves on other organizations when the environment is uncertain. The modelled organization is perceived as more legitimate or successful. Such mimetic behaviour is rational because it economizes on search costs to reduce the uncertainty that organizations are facing (Peters, 2000). Empirical studies show the operation of mimetic isomorphism in a variety of organizational domains. For example, Scott, (2008), applies the concept to explain the widespread adoption of the multidivisional structure; Haveman (1993) assessed the parallel diversification patterns of California savings and loan associations; and Greve (2000) considered format changes of radio stations.

The Sociological Theory

The sociological theory differs from information cascades in that once behaviour is institutionalized; organizations are slow to respond to new information. Behaviour is much more durable than in the economic theory where new information can lead to sudden reversals. Information cascades can be fragile, whereas the sociological theory points to the emergence of a permanent social order. Another difference is that the sociological theory has generally been applied to explain the adoption of organizational processes and innovations, whereas the economic theory aims to be more general (Lu, 2002).

While the economic theory of information cascades recognizes the potential of "fashion leaders," it has been the organizational sociologists who have actually probed the issue of "who imitates whom." Sociological studies indicate that a given firm's propensity to be imitated increases with: (1) the information content of its signal (where actions by larger, more successful, or more prestigious firms may be seen as more informative) and (2) the focal firm's degree of contact and communication with other firms. Many studies have shown that organizations of larger size and profitability are more likely to be followed (Rivkin, 2000). Moreover, theories of social networks (Gulati, Nohria & Zaheer, 2000) suggest that when organizations are linked by greater network ties they are likely to have more detailed information about each other, which facilitates imitation. Along these lines Greve (2000), found that imitation was more likely between firms with interlocking directors, and found that radio stations were more likely to follow other stations that were units of the same corporation.

Economic Theories

Bingham and Conner (2010) argue that the most prominent economic theory of herd behaviour is called information cascades or social learning. Information cascades occur "when it is optimal for an individual, having observed the actions of those ahead of him, to follow the behaviour of the preceding individual without regard to his own information" The model formalizes a process of Bayesian learning. Suppose each agent has some private information about the state of nature. The first agent behaves purely based on this private information, but the agent's behaviour reveals the information to followers. As this revealed information accumulates, it may be rational for followers to ignore their own prior information and mimic the decisions of others. A typical example is a restaurant with a long queue that becomes increasingly popular. Many of those waiting at the end of the line may have intended to visit other restaurants with which they are familiar, but they are swayed by the observation of the queue, which suggests that the restaurant is of high quality even though this may not be deceptive. Thus, agents may choose to go against their initial signals as they draw inferences from the observed behaviour of others (Asaba & Lieberman, 2004). For example, small firms may follow larger rivals if they believe the latter to be better informed. Similarly, firms that have been successful in the past are more likely to have their actions emulated.

Asaba and Lieberman (2004) observed that a second economic theory of herd behaviour is based upon the idea that managers ignore their own private information and imitate the decisions of others in an effort to avoid a negative reputation. By imitating, managers send signals to others about their own quality.

Competitive Rivalry and Risk Theories

This set of theories regards imitation as a response designed to mitigate competitive rivalry or risk. Firms imitate others in an effort to maintain their relative position or to neutralize the aggressive actions of rivals. These theories relating to rivalry and risk have their primary origin in the fields of economics and business strategy (Gnyawali & Mdhavan, 2001). Imitation to mitigate rivalry is most common when firms with comparable resource endowments and market positions face each other. Competition can be very intense in such cases, with prices and profits eroded easily (Peters, 2000). To alleviate this situation, firms can pursue either differentiation or homogeneous strategies (Baum & Haveman, 1997). Firms that differentiate their resources and market position from those of competitors become insulated from the actions of rivals. This reduces the likelihood of imitation and leads to higher profits if the differentiated position proves sufficiently attractive. Pursuing a differentiation strategy is, however, often difficult and risky. The firm cannot be certain that the new position or niche will be superior. Faced with a choice, firms therefore often choose to pursue homogeneous strategies, where they match the behaviour of rivals in an effort to ease the intensity of competition or reduce risk (Makino & Delios, 2000).

Literature Review

Best Time to Implement

Most conventional theories hold that investment in research and development (R&D) leads to sustainable competitive advantage and organizational learning through a deep absorptive capacity (Levinthal & March, 1993). As well as alignment and adaptation to dynamic market conditions and pioneering advantages, among other strategic benefits, in this context, R&D is an essential component of strategizing for firms competing in knowledge economies and high technology industries. However, contrarian evidence is beginning to emerge. Imitation can take many forms including counterfeits, clones, design copies, and creative adaptation (Schnaars, 2002). While some firms are competitive, they do not have a formalized way of linking R&D strategies to eventual customer-centric strategies (Wanasika & Conner, 2011). Studies have found that some firms are able to maintain competitiveness, even in the absence of formal R&D programs. Levinthal, & March, (1993) study of large U.S. firms reported that 24 percent of the firms did not invest in formal R&D. Other studies have shown a negative correlation between R&D expenditures and basic measures of firm performance such as profitability.

Schnaars (2002), showed that 40 percent of U.S. firms did not report positive R&D expenditures, and that 71 percent of companies did not undertake formal R&D. The findings suggest that R&D does not have to be a calcified strategy. There are alternative way of achieving innovation, adaptation to externalities, and consequent competitiveness, without necessarily investing in R&D, such as imitation. Elements of imitation include counterfeits, clones, design copies, and creative adaptations, among others. While imitation may not be the strategy of choice for many credible firms, externalities and other environmental constraints may limit the firm’s options leading to imitation as their most effective competitive strategy.

Accordingly, Wanasika and Conner (2011), distinguish two types of imitation, tactical imitation and strategic imitation. Tactical imitation involves mimicking short-term actions that do not involve substantial commitment of resources and time. Strategic imitation, the main focus of this paper, is concerned with commitment of substantial resources and long-term strategies to match strategic actions of the pioneer. A clearer picture begins to emerge by looking at innovation versus imitation findings. Mansfield, Schwartz, and Wagner (1981) found that 60 per cent of patented innovations are imitated within four years of introduction. Schnaars (2002) documents the prevalence of firms choosing an imitation path in several industries (beverages, fashion, pharmaceuticals, software) as a deliberate competitive strategy. Imitation is also prevalent in the fashion industry. Due to the quick turnaround of products, styles, and seasons, as well as the limited opportunities to make revenue, companies often “borrow” design ideas from others. Some designs are modified (for example, a v-neck versus a rounded neck), but others are almost exact copies 'copycats'. This is seen in the high-end designer to mass market direction, laterally between levels (high-end to high-end or low-end to low-end), and even from the low-end mass market to the high-end designers.

Indeed, Mansfield, Schwartz, and Wagner (1981) found that, on average, imitation costs are 35% lower than innovation costs. The positive data from imitation accrue against a backdrop of risk and mixed returns from R&D investments.

China has a long history of borrowing from others and adapting what they've learnt for the Chinese context; a cultural 'best practices'. Peters (2016) pointed that while China is behind the West in terms of scientific and engineering innovation, it engages in innovation that drives efficiency and on focused customer satisfaction. Now Chinese companies are becoming a real threat to multinationals who have invested heavy funds in R&D. While replicating consumer electronics, luxury cars, cigarettes or even entire brands, Chinese have been prolific in encouraging disruptive technological innovations which have helped propagate start-up environments resulted in thousands of small enterprises (Hammond, 2017).

While imitation as strategy has known deleterious effects on pioneering firms and overall societal innovation, imitation may in fact be beneficial to first mover firms and society in general, under given conditions. A framework will be developed to demonstrate when first movers and product pioneers are likely to benefit from imitation strategies and are better off encouraging such imitation.

Imitation & Market Leaders

While this logic supports the view that start-ups entering markets in new industries are unlikely to follow corporate ventures, it offers little insight into which firms they do imitate. To address this question, we turn to strategic groups reasoning, which suggests that, faced with uncertainty, firms identify with and imitate the actions of other firms with similar profiles to their own (firms of similar size, types of owners, target markets, resources and capabilities, and strategic tactics) (Peng, Tan, &Tong 2004).

When firms decide to create new foreign market, they are forced to choose the type of entry mode. Hill (2007) describes modes to enter new market: exporting, licensing, franchising, establishing joint venture, and new wholly owned subsidiary. There are variety advantages and disadvantages of each type of the mode selected and the best way to proceed is to analyze carefully for the most suitable entry mode.

Exporting. Firms can begin their expansion by exporting and change to other mode later. Avoiding the cost of establishing new manufacturing operation in host country including investment in assets and employees is the main advantage of exporting. However, the firm would lose the benefit if the costs of manufacturing in other places that are lower than the home country. For example, many of U.S. electronics firms have transferred some of their production facilities to Asia because of lower cost of production at similar skilled labour. The transportation for exporting should be considered especially for fragile and bulk product which can raise the transportation cost. Moreover, in some countries with complicated customs procedure, it would increase the time consuming. In addition, the tariff barrier could make exporting uneconomical. Furthermore, exporting relies heavily on the local agent, which would limit the authority and preference of the firms (Hill, 2007).

Licensing. The firms give the rights of intangible asset such as knowledge to the licensee in exchange for loyalty fee in return. Intangible property includes patents, inventions, formulas, processes, designs, copyrights and trademarks. The advantage is that the firms can avoid the capital necessary to operate in foreign market; this reason is favorable to the high potential firms but lack of resource to make their own investment. Licensors can reduce developing cost and risk. The risk involved unfamiliarity in new market and political issues. Moreover, licensing can also reduce or avoid some barriers. However, the licensor may lose the control over manufacturing, marketing and strategy which depend on experience curve. Moreover, the licensor are easy to lose control over their know-how technology by licensing it (Hill, 2007).

Franchising. Franchising is similar to licensing but it also insists that the franchisee agree to abide by strict rules as to how it does business. "Franchiser will also often assist the franchisee to run the business on an ongoing basis" (Hill, 2007). The advantage is similar to licensing but the disadvantage is losing control over quality that can harm the reputation of franchisor. Joint Venture: Firms establish venture jointly owned by two or more otherwise independent firms. They share operating control and contribute a team management. The advantages are clearly seen by sharing risks and operating costs. In addition, they share both skills and knowledge including language, culture, political and business competency. In the other hand, the major disadvantage is allowing their partner to accesses their technology and knowledge. Due to sharing ownership with partner, there often lead to conflicts and battles for control between the investing firms when their goals and objectives have changed (Hill, 2007).

Wholly owned subsidiary. The firm is responsible for full investment in establishing new subsidiary and setting up new operation. Wholly owned subsidiary will not lose control over company competence. This mode is more preferable for high-tech based firms. Moreover, firms can gain experience curve of economies. However, wholly owned subsidiary needs the highest investment among all types of entry mode while the risk would be higher as the more amount of money the firms invest (Hill, 2007).

Imitation as an Organizational Strategy

Numerous foundational research studies have enabled scholars to consider imitation (of resources, practices, and strategies) within and across organizations (Dimaggio & Powell 1983). As already noted, scholars have argued that imitation influences several organizational management procedures and have emphasized on how the organizational process were built by the forces of surrounding environment. The institutional forces are continuous, conform and bring the change to the organization in strategic development. The institutional intrapreneurship will take advantage to make such innovative strategy that matches with environmental forces. Institutional isomorphism is a process that shape organization's characteristic to be similar to others' characteristic that exists in the same industry. The social process can affect the organization to adapt the method or structure of the successful organization, which can describe as mimetic. The culture process which is guided by norms, morals and ethics that are widely acceptable in the region causes the normative process, for example, standard and custom in organization to be sought. The political process has the power to influence the organization to act in compliance with laws and policies, which can sometimes be deemed as coercive processes.

Arguably, imitation processes are most interesting in environments characterized by uncertainty or ambiguity. Few decisions have outcomes that are fully predictable. Managers take actions whose consequences depend upon the future state of the environment. In the case of the introduction of a new product or service, for example, such a state would correspond to a particular level of production cost, customer demand, and a degree of competition. At a minimum, most decisions are made under conditions of risk, where the probabilities of environmental risks can be estimated, but the actual outcome is uncertain. Managers often face more severe forms of uncertainty: they may be unable to assign probabilities; they may lack information on cause-effect relationships; and they may be unable to assess the full range of possible outcomes and states (Jones & Ryan, 2002).

Imitation by new market entrants. Entry into new markets (geographies where the firm has no operating history) is a fundamental aspect of entrepreneurship (Jones & Ryan, 2002). Uncertainty and risk are inherent in new market entry decisions, particularly for start-ups participating in a new industry. New industries are the result of changes in government regulations (deregulation, tax incentives), scientific breakthroughs, or the development of new technologies (Sine, Haveman, & Tolbert 2005). Due to this newness, businesses operating in these industries commonly lack relevant experience which might otherwise improve their odds of survival (West & Noel 2009). Such firms face substantial uncertainty insofar as new industries can evolve quickly and often lack established business models that are known to reliably generate profits. This uncertainty complicates new market entries by start-up firms in new industries.

As already noted one of the prevailing explanations for the prevalence of mimetic tendencies among organizations is provided by institutional theory (Dimaggio & Powell 1983). Institutional theory argues that adopting institutionally accepted norms and behaviours helps organizations to become more efficient decision-makers and assists them in navigating uncertainty (Sine, Haveman & Tolbert, 2005). These benefits prompt companies to imitate other companies in order to gain legitimacy, resources, stability, and ultimately to enhance their survival prospects. Though imitation does not uniformly improve firm performance it can assist firms that are facing complex problems. (Makino & Delios, 2000).

Start-ups seeking to manage the uncertainty and complexity associated with new market entry are likely to seek examples from other firms (Haveman 1993). From an institutional perspective, imitation of market entry decisions is desirable because it increases the efficiency of decision-making and strengthens the legitimacy of new market entry decisions, which facilitates efforts to garner support from environmental constituents (Makino & Delios, 2000).

Discussions and Implications

Imitation as strategy has continued to shape the emergence of the modern corporations. Strategies that are largely based on imitation have seen the shakeout and emergence of new innovations and dominant technologies over time. Imitation of products, processes, and technology has also led to industry standards. The literature has demonstrated the benefit of imitation in many aspects. In the organizational management view, firms can gain advantage from making creative imitation (capacity to absorb existing knowledge and generate into new knowledge) as a unique capability of the firm. Thus, firms can produce not only the unique offer to their customers but also reduce the chance of imitation from others. Many firms sign agreement of alliances or chose mergers and acquisitions to gain knowledge from others instead of developing their technology alone.

Moreover, in the early stage, firm's likelihood to imitate the behaviour of the successful leader includes imitation on choice of entry-mode, process in acquisitions and strategic plan. The competitor move is one of motivations for imitation. This review looked at two types of motivation from competitors that are information- based and rivalry-based. However, firms would not try to imitate other's property- based and knowledge-based resources in long run. The more experience the firms gain from engaging in business, the fewer tendencies the firms imitate because they identify imitation as a temporary substitute for experience.

If early movers have chosen a productive path, imitation accelerates the industry's convergence on a good solution. Imitation can help to promote network effects and common standards, with broad potential benefits for firms and consumers. However, if the wrong path is chosen, imitation can be costly for firms and for society. In high-definition television (HDTV), the Japanese electronics firms adopted analogue technology in the 1980s and heavily promoted its development. Eventually, it became clear that the analogue approach was inferior to digital. Despite their dominance in many areas of consumer electronics, the Japanese firms found themselves at a serious disadvantage in world markets for HDTV. The growth of HDTV in Japan and elsewhere was hampered as a result.

Thus, by reducing variation in firms' strategies and technological paths, imitation raises the collective risk of an industry. When firms imitate each other in an uncertain environment they place identical bets on the future, thereby raising the odds of large positive or negative outcomes. As a result, society bears higher risk, even though individual firms may diminish their risk of falling behind rivals. Imitation tends to be socially beneficial—and potentially profitable—in situations where the imitators complement each other. Complementarities often arise in environments with network externalities or agglomeration economies. For example, Baum & Haveman (1997) found that hoteliers tend to locate new hotels close to established hotels. Agglomeration of hotels attracts people, goods, and services, and consequently, it increases the attractiveness and reputation of the location. This is beneficial to society as well as to the hotels.

Individual firms fail when they attempt to imitate a successful leader as they has proved incapable of doing so. Smaller firms may imitate in an effort to elevate their status or legitimacy, despite a lack of resources to do so successfully (Scott, 2008). Observation of the successful actions of others may raise aspiration levels beyond what can realistically be attained (Greve, 2000).

Conclusions

The paper has surveyed theories of business imitation and has shown that they fall into two broad categories: information-based theories and rivalry-based theories. The two types of imitation have different implications, although both have amplification properties that make outcomes more extreme. Information-based imitation can speed the adoption of superior products and methods, or it can lead to dramatic failures if adopted without analysing the potential risks. Rivalry-based imitation can facilitate collusion, although more commonly it intensifies competition. In the latter case imitation often proceeds over many rounds, potentially strengthening firms if they have chosen a productive path, or on contrary, leading them further astray if they have not.

Empirical studies of imitation in the organizations literature have mostly focused on the adoption of organizational innovations and practices (or market entry, in the case of studies within the subfield of population ecology). Future researchers might consider a broader set of domains where imitation processes arise, including new product introductions, capacity expansion, R&D, and other forms of business investment. Finally, so long as organizations know how to implement imitation innovatively and ethically, imitation would be fruitful to the firms. Mtigwe, (2006) agrees that this calls for taking a more explicit account of the costs and benefits of imitation before choosing a specific type to pursue, and ensuring a combination of creativity and imitation that could provide them with their own competitive advantage, thereby becoming 'imovators'. And as a panacea to high failure rates of new ventures, creative imitation would encourage their growth and survival and eventual societal economic sustainability.

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