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ACT SIMILAR BUT BE DIFFERENT? THE IMPACT OF INSTITUTIONAL PRESSURES AND DIFFERENTIATION ON NASCENT VENTURE PERFORMANCE (SUMMARY)

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≈ SUMMARY ≈

ACT SIMILAR BUT BE DIFFERENT? THE IMPACT OF INSTITUTIONAL PRESSURES AND DIFFERENTIATION ON NASCENT VENTURE PERFORMANCE

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Principal Topics

New ventures often suffer from liabilities of newness. To overcome these liabilities and help establish legitimacy new ventures are encouraged to conform to institutional pressures (Deephouse, 1996). Failure to adapt to these norms will lead to poor performance (Zimmerman & Zeitz, 2002). At the same time, new ventures are also encouraged to stand out from the crowd and offer differentiated products/services (Zhao et al., 2013), which allows them to achieve satisfactory performance (Wiklund, Patzelt & Shepherd, 2009). Combined, new ventures are asked to face a double-edged sword: be different enough to be noticed but not different enough to challenge norms. We argue that both conforming institutional pressures (i.e., coercive, normative and mimetic pressures) and pursuing for differentiation strategy (i.e., product and price) collectively have positive on new venture performance. Thus, collectively examining the impacts of two different behaviors provides a novel view in the context of entrepreneurial firms.

Method

Using longitudinal and representative data from the Panel Study of Entrepreneurial Dynamics (PSED II), we capture coercive, normative, and mimetic pressures and new ventures' conforming behaviors to the pressures based on studies on institutional pressures (DiMaggio & Powell, 1983). These include registration with government agencies, joining trade or industry associations, and modeling competitors. To measure differentiation, we ask about novel strategies related to pricing and use of technology in the business idea. We measure performance using measures that are relevant to nascent ventures, namely the achievement of first sales and sales levels.

Results and Implications

We find that conforming behaviors to institutional pressures are strong predictors of nascent firm performance, for all performance outcomes. Indeed, two of the three types of institutional pressures (coercive, normative) had a consistent impact. We also find that one of differentiated strategies (pricing strategy) has important effects on new venture performance. Lastly, of importance is that the compared effects of institutional pressures versus differentiation show that conforming behaviors to the institutional pressures exert a greater impact on new venture performance. This study shows that 'following the rules' and thus 'gaining legitimacy' matters more for performance, at least in nascent firms. Our findings show that it pays to act similarly to other firms by conforming institutional pressures while also being different in terms of the market offerings, suggesting that the top performers are 'legitimately distinctive.'

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