

**BEING SIMILAR OR BEING DIFFERENT?
PARADOX OF NASCENT ENTREPRENEURIAL FIRMS**

Abstract

I examine how firms' conforming behaviors to isomorphism (based on institutional theory) and firms' strategies for competitive advantages (based on resource-based theory) influence firms' different performances measures (i.e. market performance and operational performance) in the firms' formative stage. This study shows that firms' behaviors conforming institutional pressures (coercive, normative, or mimetic isomorphism) and firms' strategies for market competitiveness (pricing or product/innovation strategy) are more related to with market performance (i.e., achieving first sales), rather than operational performance (i.e., becoming operational). To be specific, coercive and normative isomorphism, and firms' pricing strategy (i.e. lowering prices) have positive and significant impacts on firms' market performance of nascent entrepreneurial firms. However, mimetic isomorphism does not have any impacts on the measure. Interestingly firms' product and innovation strategy has a negative impact on firms' market performance. On the other hands, any conforming behaviors to institutional pressures and competitiveness strategy have no significant relationships with operational performance. These results suggest that firms' behaviors of 'being similar' under isomorphic pressures and 'being different' for competitive advantages are more related with 'market performance' because those organizational behaviors make nascent organizations to be 'legitimately distinctive' to the eyes of customers and stakeholders, but 'being legitimately distinctive' does not have any implications on internal operational efficiency of firms.

Keywords:

Institutional Theory, Resource-Based View, Nascent Entrepreneurial Firms

1. Introduction

Institutional pressures apply for both established firms and new firms (Honig & Karlsson, 2013), but institutional pressures will tend to have stronger influences on new and young firms because most new organizations suffer from ‘liabilities of newness’, and legitimacy that reduces ‘liabilities of newness’ is often achieved through isomorphism — that is, conformity to institutionalized preferences (Deephouse, 1996). However, little is known about institutional pressures that play out on a micro level in nascent organizations (Honig & Karlsson, 2013) and most official statistics and research do not touch the gestation phase of new firm creation process. Rather, they focus on identifiable firms (Gartner, Bird, & Starr, 1992) albeit the significance of institutional pressures on nascent entrepreneurial firms. Thus, in this paper, I will examine how institutional pressures work in nascent entrepreneurial environments.

One of central question regarding institutional pressures would be whether the adoption of new practice or organizational form under institutional logics (i.e. coercive, normative, and mimetic isomorphism) actually improves performance although the new practices were not adopted to improve performances. Would it benefit the firms better or more effectively than firm’s strategies adopted for firms’ competitiveness? And, how does the adoption of new practice under institutional logic benefit firms in nascent entrepreneurial environments and differently from firms’ competitive strategies? To answer the questions, I examine different types of isomorphic behaviors (DiMaggio and Powell, 1983) adapted by firms and the firm’s market strategies that are designed to differentiate them from others, particularly in nascent entrepreneurial context. Also, when examining the conforming behaviors and differentiating behaviors of firms, I look at two

different dependent variables - operational performance and market performance - since the firms' different behaviors and strategies might have distinctive implications on different performance measures.

I used a representative high-quality longitudinal survey data of nascent entrepreneurial firms, called Panel Study of Entrepreneurial Dynamics II (PSED II), in which a total of 1,214 nascent firms were interviewed through six waves of interview from 2005 to 2010 (Reynolds, 2011; Reynolds & Curtin, 2009). This dataset has some notable strength for this study: (1) the dataset includes 34 gestation behaviors of nascent entrepreneurial firms and contains information of different firms' strategic directions, with which I can examine their conforming or differentiating behaviors, (2) this dataset provides different performance measures that are appropriate for nascent entrepreneurial firms such as operational effectiveness and first sales, and (3) this dataset avoids the survival bias that we are usually faced with when we study established new ventures because this dataset interviewed all firms in gestation period before they become operational and documented in real-time whether the interviewed firms were disbanded or not during six interview periods.

I conducted two separate regressions to examine the impacts of firm's isomorphic behaviors (i.e. coercive, normative, and mimetic isomorphism) and firm's differentiating/distinctiveness strategies (i.e. pricing and product strategies) with two separate firm performance measures (i.e. operational performance and market performance). Results show that firm's behaviors to be conforming to institutional pressure or any firm's differentiating strategies for market competitiveness do not enhance the likelihood for nascent entrepreneurial firms to become operational firms. In other words,

firms' efforts to be similar or distinguished do not affect firms' operational effectiveness. On the other hand, firms' coercive and normative isomorphism and firm's pricing strategy to distinguish them from others positively influence the firm's market performance, the first sales. However, mimetic isomorphism of nascent firms does not have any significant implications either on operational performance or market performance. Also, interestingly, firms' product strategy that emphasizes product and technology qualities negatively influences the firms to achieve first sales.

This paper addresses important gaps in institutional theories by comprehensively examining the impacts of different types of institutional pressures on firm performances and by comparing the firms' conforming behaviors with firms' differentiating strategies, particularly in nascent entrepreneurial environments, which are rarely investigated in institutional theory. First, nascent entrepreneurial environments are important but untapped contexts related to institutional isomorphism. Also, most studies about isomorphism have focused on a specific type of isomorphism, mimetic isomorphism, providing a partial view on the mechanism of institutional pressures. By comprehensively examining different types of institutional pressures in nascent entrepreneurial contexts using a representative quality dataset of nascent firms (PSED II), this study provides a broad view on the mechanism between institutional pressures and performance of nascent entrepreneurial firms. Second, by simultaneously investigating firms' paradoxical behaviors: to be similar (i.e. behaviors conforming institutional pressures) versus to differentiate themselves from competitors (i.e. strategies for market competitiveness), this study provides a clue how seemingly paradoxical behaviors of firms could result similar outcomes at easily stage of firm development. This finding is particularly significant in that it has significant

implications on two theories related to two different aspects of firms: institutional theory and resource-based view. Institutional theory focused on similarity of firms, and resource-based view concentrated on uniqueness and heterogeneity of firms. This study simultaneously examined the two different aspects of firms and identified two seemingly different strategies or behaviors eventually aim for the same objectives of nascent firms: *'being legitimately distinctive.'* Lastly, by employing two different performance measures - operational performance and market performance, this study shows how and when firm's isomorphism and strategies for competitiveness play key roles in firm performance. Based on this study, nascent firm's behaviors conforming to institutional pressures and firm's strategies being designed to be competitive are all related to market performance, rather than operational performance.

The remaining sections of this paper unfold as follows. First, I briefly review the literature on institutional theory and resource-based view, introduce our conceptual model and develop our hypotheses. Then I present our panel of over 800 nascent venture teams, discuss the research design and present the measures and analyses used. Next follows the results. I finish with the discussion of the results, my conclusions and the limitations of the study.

2. Theoretical Framework and Hypothesis Development

Institutional theory is about "organizations being similar". On the other hand, resource-based theory is about "organizations being heterogeneous". Although the two theories examine the factors and aspects that would benefit organizations, they focus on different goals and aspects of organizations: institutional theory focuses on how firms

behave similarly with other firms to gain legitimacy, and resource-based theory concentrates on how firms *differentiate* themselves to achieve financial performance and/or competitive advantages. For nascent entrepreneurial firms - both goals: being similar and being distinctive - are critically important because they are the indicators showing firms' appropriateness and viability that are regarded for survival of firms.

Based on institutional theory, nascent firms must be perceived as legitimate in the eyes of potential members and resource providers in order for the organization to come into existence (Aldrich, 1999), and the legitimacy is often achieved by isomorphism. Because nascent entrepreneurial firms often suffer from 'liabilities of newness' and often times their identities are not clear enough to be recognized, they tend to easily absorb institutional pressures (e.g. regulatory and normative pressures) to show that they are as legitimate as existing organizations. For example, nascent entrepreneurial firms display their management teams who have a great set of human capital (e.g. education, managerial experience and etc.) to show legitimacy of their firm through a signal of normative isomorphism. Suchman (1995) and Williamson (1991) argued that entrepreneurial firms are strongly subjected to the institutional pressures, and Honig and Karlsson (2013) maintained that entrepreneurial firms are less resistant to institutional pressures than existing and established firms. Likewise, nascent organizations strive 'to be seen as appropriate firms' by being equipped with similar characteristics of existing and established firms.

At the same time, nascent firms need to be distinctive from their competitors because that is how they can be recognized and distinguished from others and chosen by customers and stakeholders. For instance, if new entrants in a market are not different from

existing firms, there is no reason for customers and stakeholders to change their prior choice of products and services. Thus new entrants in the market need to appeal their competitiveness and relative strengths among all players in the market. Resource-based theory is the theory that argues the importance of the firm's heterogeneity. Based on the theory, firms should have valuable, rare, imperfectly imitable, and non-substitutable resources to earn competitive advantages (J. Barney, 1991). Barney (1991) argued that when the firms have homogeneous and perfectly mobile resources, there would be no sustained competitive advantage.

In sum, entrepreneurial firms, particularly nascent entrepreneurial firms, are faced with the two paradoxical challenges at the same time: being similar and being different. However, although the two challenges seem dissimilar and conflicting, it does not mean that they cannot be achieved together. Entrepreneurs can use a set of conventions that function as a cultural "toolkit" (Swidler, 1986) in established market categories to construct their identities and to claim categorical membership (Navis & Glynn, 2011) and thus be similar because adhering to such conventions helps entrepreneurs "identify with other actors, values, or symbols that are themselves legitimate" (Ashforth & Gibbs, 1990). Simultaneously the firms can claim the benefits that they can bring into market differently from existing firms. This aspect of firms' distinctiveness is also important to achieve their *raison d'être* and to claim their legitimacy because there is no reason that more than two firms that deliver exactly the same customer benefits should exist in a market. In short, achieving two seemingly different goals - legitimately distinctive - is an important agenda that nascent entrepreneurial firms to attain (Navis and Glynn, 2011).

In this paper, I particularly use non-traditional performance measures to see the

impacts of ‘being similar’ and ‘being different’ efforts of nascent entrepreneurial firms: ‘being operational’ and ‘first sales.’ Most and traditional research focuses on established and identifiable firms because their information of the form are better accessible and observable. However, the formative stage of firms provides the picture of firms’ effort to be legitimate and its outcomes because the firms in the formative stage need to build legitimacy the most due to their ‘newness of liability’. Thus it is important to address what antecedents contribute for a nascent firm to build legitimacy and in turn to become a new operational firm by acquiring legitimacy from market. Therefore, I used a changed status from ‘active startup’ to ‘being operational’ of nascent ventures as a dependent variable because the indicator shows that nascent organizations are accepted as appropriate, desirable, and legitimate organizations. In addition, the measure of ‘being operational’ is the performance indicator focusing on its operational capability and excellence, rather than market performance and firms can be operational although they are yet to make any sales or profits. In other words, the indicator of ‘being operational’ does not tell anything about firm’s market performance. Therefore, in addition to the indicator regarding operational performance, I also measure market performance of nascent firms, with the measure of ‘first sale’. Viability in market is usually shown as ‘sales’. For nascent entrepreneurial firms, ‘achieving the first sale’ is an important milestone, showing nascent firms’ economic and market viability and the firms’ appropriateness and legitimacy as an economic organization that creates financial values. One of purposes of this paper is to see how isomorphic behavior and distinctiveness strategy benefit nascent firms. In this regards, I use the two different performance measures to see how isomorphism and market strategy differently or similarly affect operational and market performance.

2.1 Isomorphism and the Behaviors of New Organizations

Starr and MacMillan (1990) argue that an organization must often create an impression of viability and legitimacy before it receives support. Nascent entrepreneurial firms that usually need support more than established firms resemble other existing organizations that are already considered to be legitimate by definition of their existence. Institutional theory holds that organizational conformity to institutional pressures, which make new organizations similar, is a result of a willingness to conform to institutionally prescribed expectations (Meyer & Rowan, 1977) with the expectation to be seen similarly with existing firms. Non-conformity of nascent firms is unwanted, and it will be seen as an awkward or deviant behavior in a market (Honig & Karlsson, 2004). Thus, nascent firms tend to be conforming to institutional pressures to achieve their legitimacy.

DiMaggio and Powell (1983) argue that there are three isomorphic processes: coercive, normative, and mimetic. Coercive isomorphism stems from political influence and its forcibility, normative isomorphism is associated with professionalization, and mimetic isomorphism results from standard responses to uncertainty, thus facilitating imitation of competitors or others. In the next section, I will argue how each different type of isomorphism affects firm performance, both in operational performance and market performance.

2.1.1 Coercive Isomorphism

Coercive isomorphism results from both formal and informal pressures exerted on organizations by other organizations upon which they are dependent (DiMaggio and Powell, 1983). Particularly, the term usually explains the phenomena of conformity of actors that are subjected to the regulative element (Honig and Karlsson, 2013). Because of

the forcibility of the regulative element, organizational structure reflects rules institutionalized and legitimated by and within state (Meyer and Rowan, 1977). The organizations that institutionalized laws within state would not behave against the common senses, which are taken-for-granted. Coercive isomorphism also can be a tool used by nascent firms to show that they are legitimate entities. For instance, the registration with appropriate government agencies implies that the organization is an appropriate entity within state, and potential partners with the new firm can be protected by the law in case that some conflicts occur. Particularly, nascent firms that are yet to establish their legitimacy and appropriateness in a market need to show that they are at least formal and legitimate entities, by registering with proper governmental agencies.

However, conforming to coercive isomorphism does not guarantee that it would increase internal organizational efficiency (DiMaggio and Powell, 1983). Instead, coercive isomorphism enhances the feelings of safety of stakeholders and customers who transact with the focal firms because nascent firms are legally legitimate entities. Constructed based on behaviors, track records, and/or resources of a legitimated entity, legitimacy is an indicator that represents a desirability of an entity in the eyes of evaluators. Zimmerman and Zeitz (2002) said that legitimacy is the “evaluators’ belief or feeling that the ventures are indeed competent, efficient, effective, worthy, and appropriate”. Also, Cohen and Dean (2005) also mentioned that legitimacy is “a perception that the new ventures that solicit external resources would act in a manner consistent with shareholder wealth generation, as well as trust that the firm’s economic potential is accurately reflected in information provided to resource providers”. Thus, legitimacy acquired through conforming to coercive isomorphism enhances perceptions towards the legitimized entities and legitimized

entities' communications with other entities for their business transactions and helps the nascent firms to enhance their market performance. Thus, I argue:

Hypothesis 1a: Nascent entrepreneurial firms that have been subjected to coercive isomorphism (e.g., a registration with appropriate governmental agency) do not necessarily have a greater propensity to become operational firms than the firms that have not been.

Hypothesis 1b: Nascent entrepreneurial firms that have been subjected to coercive isomorphism (e.g., a registration with appropriate governmental agency) have a greater propensity to achieve the first sales than the firms that have not been.

2.1.2 Normative Isomorphism

DiMaggio and Powell (1983) said that normative isomorphism come from education and professions because those control through ideas and belief systems. Scott and Backman (1990) also mentioned that “normative isomorphism defines reality and exercises control by devising ontological frameworks, proposing distinctions, creating typifications, and fabricating principles or guidelines for action.” Organizations such as education, association, and family are important sources of institutionalizations because they shape social norms about personal behavior and attitudes to work methods, relevant to problems. Conforming to normative isomorphism helps for an organization to transact with other organizations equipped with similar social norms and values, to be acknowledged as legitimate and reputable, and to fit into administrative categories that define eligibility for public and private grants and contracts. However, professional organization, norms, and associations are likely to influence the internal activities of organizations, irrespective of arguments based on efficiency (Honig and Karlsson, 2013).

In other words, organizations adopt behaviors that conform to normative demands although they are not necessarily congruent with the rational attainment of economic goals (Suddaby, 2010). In this regards, conforming to normative isomorphism does not guarantee that it would increase internal organizational efficiency (DiMaggio and Powell, 1983). To sum, it doesn't ensure that conformist organizations do things efficiently than do their more deviant peers, but the normative conformity implies that it will help transaction of an organization with other organizations with similar values. Thus, I argue:

Hypothesis 2a: Nascent entrepreneurial firms that have been subjected to normative isomorphism (e.g., becoming a member of a trade or industry association) do not necessarily have a greater propensity to become operational firms than the firms that have not been.

Hypothesis 2b: Nascent entrepreneurial firms that have been subjected to normative isomorphism (e.g., becoming a member of a trade or industry association) have a greater propensity to achieve the first sales than the firms that have not been.

2.1.3 Mimetic Isomorphism

Mimetic isomorphism is a result of organizations, attempting to limit uncertainty by modeling their behaviors after similar successful organization in their field. Firms demonstrate mimetic behaviors when uncertainty is high and thus the perceived uncertainty encourage imitation of competitors (DiMaggio and Powell, 1983). Thus I conjecture the tendency of mimetic behaviors of nascent firms likely to be stronger than those of established organizations. When it comes to nascent entrepreneurial firms, it is highly likely that mimetic behaviors appear by copying competitors in the same industry or within

state, and the intention of copying others will trigger firms to collect information about the competitors of this new business. Similar to coercive and normative isomorphism, mimetic isomorphism does not guarantee that it would increase internal organizational efficiency (DiMaggio and Powell, 1983). It is because copying one or two aspects/features of others would not guarantee other firms' operational efficiencies and there are many other factors affecting operational effectiveness. Instead, conforming to mimetic isomorphism might help for organizations transact with other organizations and attract customers because the similar behavioral patterns of nascent organizations may signal to customers and stakeholders that the new organizations could be competent as much as the existing successful organizations. Thus, I argue:

Hypothesis 3a: Nascent entrepreneurial firms that have been subjected to mimetic isomorphism (e.g., collecting information about the competitors of this new business) do not necessarily have a greater propensity to become operational firms than the firms that have not been.

Hypothesis 3b: Nascent entrepreneurial firms that have been subjected to mimetic isomorphism (e.g., collecting information about the competitors of this new business) have a greater propensity to achieve the first sales than the firms that have not been.

2.2 Firms' Differentiation

In previous sections, I argued that nascent firms try to be similar with existent firms by conforming to different types of institutional pressures. However, paradoxically nascent firms also try to differentiate themselves from others to attract customers and to achieve above-average returns (Porter, 1980, 1996). In other words, in entrepreneurship

isomorphism coexists with its contradiction—distinctiveness—and involves a trade-off between the emancipating aspects of entrepreneuring (i.e. being distinctive from others) and the accommodation of constraints (i.e. conformity to institutional pressures) (Rindova, Barry, & Ketchen, 2009). If conformity is high but novelty is low, it will enable legitimacy but discounts distinctiveness (Navis and Glynn, 2011). In other words, if nascent firms do not differentiate themselves from existent competitors, their market propositions would not be as effective as existing market players because existing market players already established their relationships with customers and stakeholders, and the customers and stakeholders do not have any reasons to change their current relationships and behaviors without any additional benefits. Thus, nascent entrepreneurial firms need to devise strategies to differentially position themselves from others and to deliver the messages about their distinct and unique benefits to their customers. Barney (1991) asserted that the skills and resources of a firm must be valuable, rare or unique among a firm's competitors, imperfectly imitable in order that the firm achieves competitive advantages in the market. Thus, I argue that nascent firms also pursue differentiation strategies that are often related to unique and specialized resources that firms hold.

Relatedly, Porter (1980) also argued that focused strategy requires that the skills and resources of a firm be specialized to its particular target segment and hence may enhance the efficiency or effectiveness of the firm (J. B. Barney, 1986; Porter, 1981). In large, there could be different types of strategies to distinguish a firm from others depending on targeted markets: lower pricing strategy vs. product differentiation strategy. First, 'price' is the most visible and immediate tool to differentiate nascent firms from existing ones. Although the firms that choose to compete with others with lower market

prices do not necessarily differentiate them from others in terms of quality, services or innovation, they differentiate themselves by employing their skills or assets in strategic factor market (J. B. Barney, 1986) and thus they are able to lower production costs compared to competitors. In addition, nascent entrepreneurial firms can provide innovative products or services and achieve a higher level of differentiation in an industry, resulting better financial performance. Innovation is in general considered to be positively related to performance (Schumpeter, 1934; Zahra & Covin, 1995). Managing innovation to grow has been a focus of study for decades (Burns & Stalker, 1961) and has been demonstrated to positively impact firm performance when environmental factors are taken into account (Zahra, and Covin, 1995). Given the difficulty of sustaining a competitive advantage in any setting where resources are not immobile (Barney, 1991), the resource-based view and related work also suggest that innovation is needed to maintain profitability.

Similar to different types of isomorphism (i.e. coercive, normative, and mimetic isomorphism), being differentiated from other competitors will be relevant in the context of market transactions rather than internal operational efficiency because the strategies are the firms' market propositions implying what additional benefits they can convey compared to other competitors. In other words, regardless whether nascent firms take a strategy to lower prices or to deliver innovative and quality products to a market, their internal operational efficiency would not be necessarily affected by the strategies. Instead, the strategies would enhance market performance of nascent firms because their focused strategies reinforce their position in their markets and expected benefits for customers and stakeholders. Thus, I hypothesize:

Hypothesis 4a: Nascent entrepreneurial firms that have chosen a pricing scheme

(e.g., lowering prices than competitors) to differentiate them from their competitors do not necessarily have a greater propensity to become operational firms than the firms that have not.

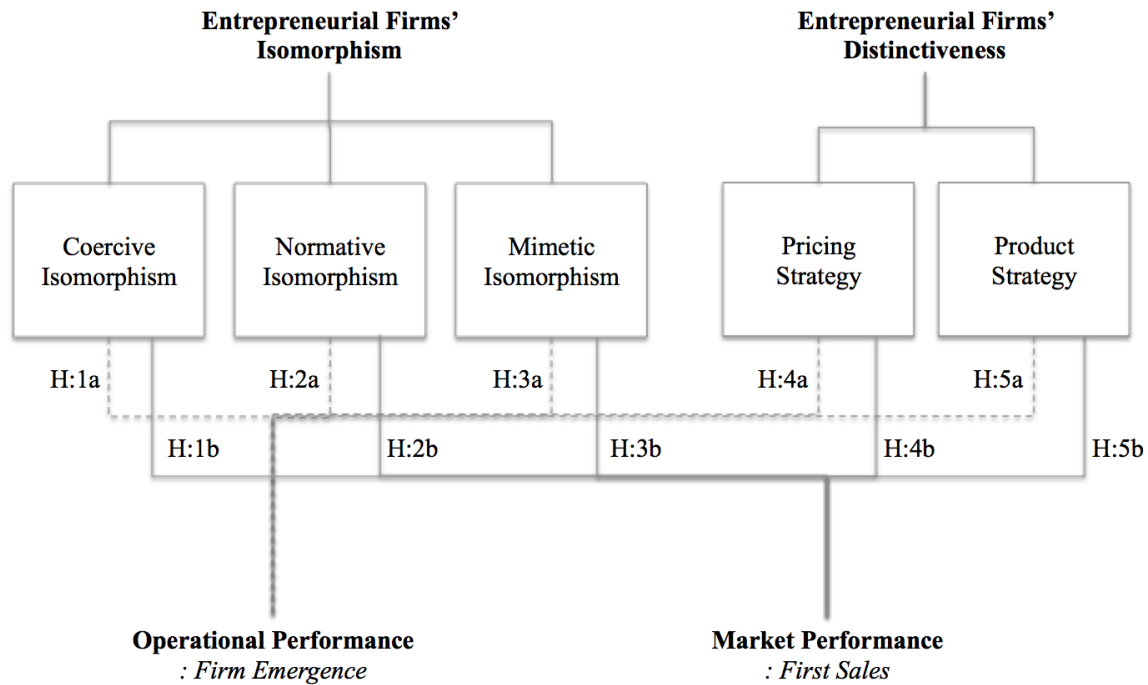
Hypothesis 4b: Nascent entrepreneurial firms that have chosen a pricing scheme (e.g., lowering prices than competitors) to differentiate them from their competitors have a greater propensity to achieve the first sales than the firms that have not.

Hypothesis 5a: Nascent entrepreneurial firms that have chosen a strategy to offer quality products (e.g., developing new or advanced product technology or process technology for creating new and innovative goods and services) to differentiate them from their competitors do not necessarily have a greater propensity to become operational firms than the firms that have not.

Hypothesis 5b: Nascent entrepreneurial firms that have chosen a strategy to offer quality products (e.g., developing new or advanced product technology or process technology for creating new and innovative goods and services) to differentiate them from their competitors have a greater propensity to achieve the first sales than the firms that have not.

The below figure illustrates the ten different hypotheses that I elaborated above.

Figure 1: Conceptual Framework



3. Methods

3.1. Research Design and Sample

This paper examines how different types of isomorphism (DiMaggio & Powell, 1983) and distinctiveness (Barney, 1991) of nascent entrepreneurial firms influence on different types of performance: operational performance and market performance. As such, to test the hypotheses, this study requires information of nascent organizations' activities that show how they behave similarly and differently from others and different types of performance measures of entrepreneurial firms in the formative stage of venture creation.

In this regard, we investigated the development of pre-launch entrepreneurial teams relying on panel data from Panel Study of Entrepreneurial Dynamics (PSED II), in which over 30,000 Americans constituted the sampling frame to identify individuals engaged in the start-up process. Based on three criteria to identify nascent entrepreneurs, a total of 1,214 nascent firms were identified. This dataset contains representative high- quality

longitudinal data collected including six waves of interviews from 2005 until 2010. The sampling procedure and details of the data collection process has been presented elsewhere (Reynolds, 2011; Reynolds & Curtin, 2009)

This data have some notable strengths related to studying how institutional isomorphism influences nascent firm performance. First, it includes 1,214 entrepreneurial firms with up to thirty-four gestation activities of each entrepreneurial team, which allow me to analyze the institutional isomorphic behaviors of entrepreneurial firms. Second, the challenges and uncertainty for the team when trying to start a business are likely different and greater than the challenges of operating the new venture once started. Particularly, nascent entrepreneurial firms that lack track records of financial performance and mostly suffer from liabilities of newness (Baum & Oliver, 1991) attempt to follow social mechanisms to achieve some level of legitimacy of their organizations. In other words, institutional pressure in nascent entrepreneurial environments is greater than the pressure in established markets as previously said. Thus, the dataset interviewed nascent entrepreneurs about their firms fits the purpose of this study. Third, work performance concerns outcomes relative to some goals. The goals of new ventures vary and therefore it is difficult to identify suitable performance targets for entrepreneurial teams that are different from operational firms that have already been started. For example, research suggests that maximizing profits or growth is not necessarily a goal of all independent and entrepreneurial businesses (e.g., Wiklund, Davidsson & Delmar, 2003). PSED II offers alternative performance measures for nascent entrepreneurial firms because this dataset documented detailed information regarding a progress of entrepreneurial firms (e.g. status changes of firms, first sale, survival and etc.) from the inception and gestation period of

nascent organizations. Fourth, PSED II avoids the survival bias of studying established new ventures because many firms disband their efforts before the business is started (e.g., Davidsson and Gordon, 2012) because they did not achieve their legitimacy. Thus, if we use the dataset that only contain survived firms, we will not able to see the mechanism of institutional pressures and the achievement of legitimacy in the early period of firms. Thus the implications of outcomes about the impacts of institutional pressures and distinctiveness strategy of nascent organizations will be limited. Fifth, PSED II collects annual data over 6-year period, which allows for the real-time study of the startup process as it unfolds reducing the risk of hindsight bias and memory decay.

The dataset underwent additional filtering to accommodate requirements of this study. First, similar to other studies (Brannon, Wiklund, & Haynie, 2013), I only included nascent firms that were initiated during a specific time frame prior the first interview. I selected 5 years as the cutoff. This excluded 138 firms from total 1214 firms. Then, I deleted any firms whose gestation activity had been conducted one year before the interview. Some firms were in the process of starting a new business but had begun their efforts as early as 1947. The problem with including the firms that had started businesses much earlier than the interview period is that I can not observe gestation behaviors that have been conducted before the interview period. Also, the inclusion of respondents from earlier cohorts who were still in the process of starting their businesses will result in the issue of memory decay, which will cause informational errors. This exclusion reduced an additional 229 firms from the sample. Third, I removed the firms consisting of more than five owners because (a) the firms with more than five owners are rare, meaning that the firms are outliers, and (b) the number of owners might affect the number of gestation

activities completed and the firms' performance. Fourth, I excluded the firms whose team members consist of any institutional representatives. It is because any institutional owners could affect organization's isomorphic behaviors differently from individuals. This whole filtering process resulted in 801 entrepreneurial firms. The longitudinal data across six interviews was utilized to measure all independent, dependent, and some control variables. However, some control variables (e.g. average age of owners, average startup experience of owners, and average industry experience of owners and the industry of firms) were collected during the first interview because there are very few changes to the teams during the studied period.

3.2. Measures

3.2.1. *Dependent Variables:* I used two dependent variables: '*firm emergence*' and '*first sales*' to measure performances of entrepreneurial firms. The first dependent variable is an important operational milestone of nascent entrepreneurial firms because it reflects a perceived operational status change of nascent entrepreneurial firms. The second dependent variable is another important milestone of entrepreneurial firms, which shows market performance and an objective performance indicator. Both dependent variables are meaningful milestones for nascent entrepreneurial firms because they reflect different aspects of firm performance: operational performance and market performance.

Firm emergence: the start of sales is generally considered as a sole indicator of firm organizational emergence (Carter et al. 1996; Gatewood et al. 1995). However, such a view is limited as it ignores several important dimensions of nascent firms. According to Katz and Gartner (1988), organizations come to exist when they demonstrate intention, establish boundaries, acquire resources, and engage in exchanges. Moreover, firm creation can also

be taken as a subjective experience of the nascent entrepreneur. In other words, it is the perception of nascent entrepreneurs that indicates when a firm is operational. Based on the argument, I measured the perception of a nascent entrepreneur by asking whether he or she perceived that the nascent firm (a) was in business; (b) was still working to start the business; or (c) had terminated the project. The scale was coded by giving the option (a) the value of 1, the option (b) and the option (c) the value of 0. Thus, the change from 0 to 1 across different 6 interview periods manifests the perceived status change of being operating firms.

First sales: similar to other studies of nascent entrepreneurs (Brannon et al., 2013; Davidsson & Honig, 2003) the second dependent variable measures firm start-up success in terms of achieving first sales. Achieving first sales is a central milestone during the new venture creation process indicating that nascent organization is a viable entity in a market (Davidsson & Honig, 2003). In other words, achieving first sales is a performance indicator capturing how well the entrepreneurial team has performed in the market. During each wave of data collection, respondents were asked if “Has this new business already received any money, income, or fees from the sale of goods or services?” If respondents answered “yes” I coded this variable 1; otherwise it was coded 0.

3.2.2. Independent Variables: I identified the first set of independent variables based on the institutional theory (DiMaggio & Powell, 1983): coercive, normative, and mimetic isomorphism. The second set of independent variables is constructed based on resource-based theory (Barney, 1991): price strategy and innovation/quality product strategy.

Coercive isomorphism: based on institutional theory, coercive isomorphism stems

from political influence and the problem of legitimacy. One of the key components of coercive isomorphism of nascent entrepreneurial firms will be a registration of the firm with governmental agency. Thus, a dummy variable was created identifying those nascent entrepreneurs who indicated whether the names of the firms have been registered with the appropriate government agency. If a new venture has been registered with governmental agency, it was coded 1; otherwise it was coded 0.

Normative isomorphism: the indicator of normative isomorphism measured if a new business becomes a member of a trade or industry association, or this new business become a member of a trade or industry association in the future. I predicted that nascent firms who become members of a trade of industry association would demonstrate their exposure to normative isomorphism within the industry. A dummy variable indicated those who joined the membership or association was coded 1; otherwise it was coded 0.

Mimetic isomorphism: firms demonstrate mimetic behaviors when uncertainty is high and the perceived uncertainty encourage imitation of competitors. Particularly, nascent entrepreneurial firms that are new in the market will start with researching and collecting information about the competitors of the new business to imitate the competitors. Thus, I measured firms' mimetic isomorphism based on entrepreneurs' gestation behavior related to mimicking competitors. The indicator of mimetic isomorphism is whether respondents have made an effort to collect information about the competitors of this new business. The respondents who answered 'yes' were coded 1, and the respondents who answered 'not yet' or 'no, not relevant' were coded 0.

Firm's strategies for distinctiveness: firms are trying to be distinct and unique at the same time they are showing isomorphic behaviors with competitors for their survival

and competitive advantages. In this study, I used two different indicators to measure nascent firms' differentiating efforts and intentions. The first measure of firm's distinctiveness strategy is whether respondents perceive lowering prices important for this new business to be an effective competitor. The respondents who strongly or just agreed with the statement were coded 1, and the respondents who strongly or just disagreed with the statement were coded 0. The second proxy representing firm's distinctiveness strategy is whether respondents perceive developing new or advanced product technology or process technology for creating goods or services is important for this (new) business to be an effective competitor or not. The respondents who strongly or just agreed with the statement were coded 1, and the respondents who strongly or just disagreed with the statement were coded 0.

3.2.3. *Control Variables:* I use the same control variables in all equations. Human capital, such as years of education, startup experience, and industry experience is an investment that may produce labor productivity increases (thus, operational efficiency) and signal their competitiveness to markets. First, we controlled for human capital in several ways. Owners indicated the highest level of education they had completed, and this was coded into categorical variables from up to eighth grade to law/MD/PhD/EDD degree and I aggregated all educational levels of owners of each firm and averaged it to use one of human capital indicator of firms. I also measured the average amount of years of industry experience of a team as a normal form. Thirdly, individuals who had previously attempted a start-up were also noted and coded as the number of previous start up experience, indicated by a continuous variable. This variable was also measured as team level human capital by measuring the average of startup experience of all owners. In addition, the

average age of owners was controlled because the age can affect the productivity and performance of entrepreneurial firms. Some organizational levels of control variables were included as control variables too. Firm size, which includes owners, full-time employees, and part-time employees, was measured: owners and full-time employees working more than 35 hours per week have been counted 1 per person and part-time employees working less than 35 hours per week have been counted 0.5 per person.

4. Analyses and Results

Table 1 reports descriptive statistics and correlations for the variables for all analysis. Correlation across all variables generally is low, with the highest correlation being 0.28 between two dependent variables: first sale and operating, which implies that there is positive but moderate relationship between operational performance and market performance. Thus, the risk of multicollinearity should be minimal. Next, I conducted two separate regressions to examine the impact of different types of isomorphism and firm's strategies to be distinctive. First two models in Table 2 (Model 1 and Model 2) measure the impacts of independent variables on the first dependent variable: 'whether the status of an active startup has changed to an operational firm', and the next two models in Table 2 (Model 3 and Model 4) measure the impacts on the second dependent variable, using random effect regressions: 'whether a firm achieved first sales' across six interview periods.

Insert Tables 1 and 2 about here

Model 1 in table 2 includes the control variables for the first dependent variables: ‘whether the status of an active startup has changed to an operational firm’. Firm size, owner’s industry experience, and education particularly have positive impacts on firms’ status changes from active startups to operational firms. Model 2 shows the results for the addition of the entrepreneurial firm’s different types of isomorphism indicators: coercive, normative, and mimetic isomorphism and the two indicators of entrepreneurial firm’s distinctiveness strategies: pricing strategy and product strategy. I argued that firms’ gestation behaviors related to coercive, normative, and mimetic isomorphism would not necessarily enhance the firms to become operating firms in hypothesis 1a, 2a, and 3a. The result shows that no gestation behaviors indicating isomorphism enhance the possibility for nascent entrepreneurial firms to become operational firms. Also, in hypothesis 4a and 5a, I argued whether a firm focuses on distinctive strategy or not would not be relevant for nascent firms to change their status from in gestation phase to in operation. The variables regarding two strategies did not show any significant effects. However, I cannot confirm that the hypotheses 1a-5a are supported because the overall fit of Model 2 is not significant ($\text{Prob} > \chi^2 = 0.91$). Thus the hypotheses are neither supported nor rejected. Model 3 in table 2 includes the control variables for the second dependent variables: ‘whether firms received any money, income, or fees from the sale of goods or services’. All control variables excepting average education of owner have significant impacts on achieving the first sales. Among the significant control variables, interestingly the average age of owners has negative and significant impacts on achieving first sales. The Model 4 shows the results for the addition of the entrepreneurial firm’s different types of isomorphism indicators, using random effect regressions: coercive, normative, and mimetic isomorphism and the

two indicators of entrepreneurial firm's distinctiveness strategy: pricing strategy and product strategy on the second dependent variable, first sales. I argued that firms' gestation behaviors related to coercive, normative, and mimetic isomorphism would help the firms to achieve the first sales in hypothesis 1b, 2b, and 3b. The result shows that the gestation behaviors related to coercive and normative isomorphism enhance the likelihood for nascent entrepreneurial firms to achieve the first sales, but mimetic isomorphism does not have any significant influence. Also, in hypothesis 4b and 5b, I argued that firms focusing distinctiveness strategy (i.e. pricing and product strategy) would be more likely to achieve the first sales than the firms in the other category, and hypothesis 4b was supported, implying that lower pricing strategy would help for nascent firms to achieve the first sales. However, hypothesis 5b was not supported. In fact, the product strategy to be distinct from others has negative and significant impact on achieving the first sales, meaning that the strategy adversely affects for firms to achieve the first sales.

5. Discussions and Conclusions

In this paper I set out to advance the literature on isomorphism and performance, particularly as it applies to the nascent entrepreneurial firms. Also, by comparing firms' isomorphism behaviors with firms' competitive strategic behaviors, I found the seemingly paradoxical behaviors of firms do not necessarily result in different performances of nascent entrepreneurial firms. To be specific, all isomorphism behaviors of firms, including coercive, normative and mimetic behaviors, to be similar with existing firms do not affect firms' operational efficiency as firms' competitive strategies to differentiate them from competitors, including pricing and product strategies, do not influence on the operational

measures. However, both the conforming behaviors to be similar with others and the strategies to distinguish from others have implications on market performance, measured by whether the firms achieved the first sales or not. To be specific, coercive and normative isomorphic behaviors have positive impacts on firms' market performance and firm's differentiating strategy with lowering pricing is also positively associated with firms' market performance. However, firms' mimetic behaviors does not have any positive impacts on market performance. Also, interestingly firm's differentiating strategy with quality product and technology has a negative relationship with market performance. I conjecture that the negative relationship between firm performance and product quality strategy originate from the nature of quality product and the market performance measure that I used in this study. Specifically, it might take more time for firms to produce quality and innovative products than normal products. Thus, the firms aiming product quality might achieve their first sales later than competitors with other market strategies. Also, it also takes more time for customers to acknowledge quality products than lower prices. In essence, firms' legitimately distinctive strategy to be similar through conforming coercive and normative pressures and to differentiate with lower price are related to market performance rather than operational performance.

These results have important implications for scholars who are interested in institutional theory, particularly in the entrepreneurial environments. First, I stimulate new theoretical development in institutional theory by comparing the theory with resource-based theory, which has been concretized as firms' strategy for competitiveness in this study. In the field of strategy, firms' market strategy has been emphasized for their survival and competitive advantages. However, based on this study, firms' isomorphic behaviors,

particularly coercive and normative isomorphism, in nascent entrepreneurial environment are significant in firms' market performance as much as firms' strategy for competitiveness. This result and theoretical implications help move the literature beyond the dominating "only phenomenon-focused research" in entrepreneurship literature related to institutional theory, which has been criticized in the literature (Tornikoski and Newbert, 2007)

Second, little is known about how institutional pressures, compared to firms' competitive advantages, affects the performances of nascent organizations. Previous scholars maintained that entrepreneurial firms are more conforming to institutional pressures. For instance, Honig and Karlsson (2013) argued that entrepreneurial firms are less resistant to institutional pressures. Also, Suchman (1995) and Oliver (1991) argued that nascent organizations are strongly subjected to the pressures. However, their arguments have been descriptive illustrating behaviors of organizations. In this paper, I provide empirical results that show how the institutional pressures affect performance of nascent firms by employing both operational and market performance measures. Empirical results show that institutionally conforming behaviors, particularly related to coercive and normative isomorphism, have positive implications of the firms' market performance, rather than operational performance. It is because nascent entrepreneurial firms are often suffered from 'liabilities of newness', thus their behaviors to achieve legitimacy through efforts for isomorphism positively influence on their audience, such as customers and business partners. However, the isomorphic behaviors do not necessarily enhance the operational efficiency because having better legitimacy does not have any implications on firms' internal operational performance.

Lastly, this study provides more detailed and fine-tuned findings in isomorphism and firms' competitive strategy. Specifically, not all isomorphic behaviors of nascent organizations do not have positive impacts on the firms' performance: the behaviors related to coercive and normative isomorphism help nascent firms to achieve the first sales, which is an important milestone of nascent entrepreneurial firms. However, the firms' mimetic behaviors did not enhance the firms' performance. Also, this study shows that not all firms' competitive and differentiating strategy positively impact on the performance of nascent firms in their formative stage. In particular, firms' pricing strategy is positively associated with achieving the first sales, but firms' quality and innovative strategy is not. These results imply that it is risky to assume all institutional pressures or firms' competitive strategies result in the same outcomes. Instead, we may need to be equipped with more fine-tuned perspectives depending on the context of analysis.

6. Limitations and Future Research

One of the central controversy or criticism in institutional theory is that it is hard to judge whether a new practice is adopted for reasons of isomorphism or for the purpose of firms' competitiveness. In other words, it is still challenging to identify real reasons for adopting new practices before directly asking reasons for the behaviors (Suddaby, 2010). This study does not have the information related to intentions of firms' behaviors but I defined isomorphic behaviors based on the outcomes of behaviors. Thus, the implications of this study are somewhat limited. Also, some measures, particularly the behavior representing mimetic isomorphism could be controversial. Because the fact that focal firms collected information about the competitors of their new business does not necessarily

mean that they copy their competitors. The behaviors could be antecedents to fabricate firms' strategy to differentiate their firms from others. However, PSED II provides limited information regarding firms' mimetic isomorphic behaviors, thus it was the best measure that I could use in this study.

'Distinctively legitimate' is an important agenda for nascent entrepreneurial firms for their survival and performances. Despite the limitations mentioned above, the comprehensive examinations of this study on the impacts of firms' behaviors related to isomorphism and firms' strategies for their competitiveness in nascent entrepreneurial environments help us to understand how the seemingly different firms' behaviors and strategy could similarly influence on firms' market performances.

Table 1. Variable, Descriptive Statistics and Correlations

	Obs	Mean	SD	Min	Max	1	2	3	4	5	6	7	8	9	10	11
(1) Operating	2684	0.154	0.361	0	1											
(2) First Sale	2364	0.473	0.499	0	1	0.281 ***										
(3) Coercive Isomorphism	1749	0.286	0.452	0	1	0.067 ***	0.285 ***									
(4) Normative Isomorphism	2297	0.074	0.261	0	1	0.072 ***	0.140 ***	0.184 ***								
(5) Mimetic Isomorphism	1416	0.412	0.492	0	1	-0.130 ***	0.057 **	0.086 ***	0.070 **							
(6) Product Strategy	1015	3.748	1.112	1	5	0.031	-0.005	-0.019	-0.100 **	0.070 *						
(7) Pricing Strategy	1245	3.720	1.164	1	5	-0.040	-0.071 *	0.028	0.002	0.003	0.146 ***					
(8) Firm Size	4806	0.896	2.348	0	111	0.071 ***	0.114 ***	0.098 ***	0.033	0.072 ***	0.025	-0.015 *				
(9) Avg. Age of Owners	4806	35.458	15.847	9	99	-0.015	-0.019	0.006	0.012	0.009	-0.064 **	-0.003	-0.044 ***			
(10) Avg. Industry Exp. of Owners	4806	6.711	8.658	0	49.3	0.062 **	0.039 *	-0.051 *	0.011	-0.038	-0.074 ***	0.034	0.019	0.366 ***		
(11) Avg. Startup Exp. Of Owners	4806	0.802	1.451	0	20	0.018	0.068 ***	0.108 ***	0.081 ***	0.093 ***	-0.051 *	0.031	0.025 *	0.245 ***	0.048 ***	
(12) Avg. Education of Owners	4806	5.332	1.976	0	10	0.057 ***	0.043 **	0.063 ***	0.099 ***	0.123 ***	-0.137 ***	-0.101 ***	0.066 ***	0.144 ***	0.058 ***	0.111 ***

*p<.10, **p<.05, ***p<.01

Table 2. Effects of Different Types of Isomorphism and Firm's Distinctive Strategy

	DV: Operating				DV: First Sale				
	Model 1		Model 2		Model 3		Model 4		
	Control		Main		Control		Main		
Constant	-4.739	****	-6.569	**	-0.799	**	-1.221		
	[.577]		[2.904]		[.345]		[2.012]		
Firm Size	0.041	*	-0.264		0.296	****	0.207		
	[.025]		[.334]		[.054]		[.243]		
Average Age of Owners	-0.013		-0.039		-0.012	*	-0.032		
	[.011]		[.037]		[.006]		[.024]		
Average Startup Exp. of Owners	0.069		-0.004		0.158	**	0.031		
	[.097]		[.323]		[.067]		[.210]		
Average Industry Exp. of Owners	0.044	**	0.106	*	0.023	*	0.045		
	[.017]		[.056]		[.012]		[.043]		
Average Education of Owners	0.154	**	0.007		0.051		-0.150		
	[.075]		[.231]		[.049]		[.175]		
<i>Firm's Isomorphism</i>									
Coercive Isomorphism			0.996				5.397	****	
			[.939]				[1.109]		
Normative Isomorphism			0.554				4.884	*	
			[1.592]				[1.956]		
Mimetic Isomorphism			0.204				1.050		
			[.836]				[.674]		
<i>Firm's Distinctiveness</i>									
Pricing Strategy			0.193				0.604	*	
			[.361]				[.309]		
Product Strategy			-0.279				-0.794	**	
			[.376]				[.327]		
Number of observations	2684		536		2364		525		
Number of groups	801		509		801		505		
Wald Chi2	13.16		4.77		42.77		28.6		
Regression type	Random		Random		Random		Random		
	Effects		Effects		Effects		Effects		

*p<.10, **p<.05, ***p<.01, ****p<.001

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