Competitive Landscape Shift: When does a competitor matter?

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Competitive Landscape Shift: When does a competitor matter?

Abstract

This research broadens the Strategic Entrepreneurship construct. This research aims to clarify the relationship between strategic and entrepreneurial activities with competitive landscape changes by questioning is the firm limited to the current boundary of competition? By integrating the competitive dynamics and multimarket competition theory, the study finds the correlative relationship between Strategic Entrepreneurship activities with competitive landscape shifts. The study found that explorative activities do not have any commonalities with traditional competitors. Also, the high involvement competitive tension with rival causes the firm to go beyond its current landscape, which enables the incumbent firm to increase the market commonality with new competitors and traditional competitors. The research also looking for the anomalies that emerged within the process of it and give several explanations for that. By analyzing the M&A history (between 1995 - 2019) of big players in the consumer goods industry which has a similar core (Procter & Gamble and Unilever) I found the support to the hypothesis.

Keywords: explorative activities, exploitative activities, competitive tension, competitive landscape.
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Strategic Entrepreneurship is considered a comparable new construct that emerged at the beginning of this century. As a construct, SE is emerged by integrating the strategic management and entrepreneurship disciplines (Ireland, Hitt, & Sirmon, 2003). According to this perspective, simultaneous involvement in advantage seeking activities, whereas it considered as strategic when the firm wants to expand the advantage over traditional competitors, and in opportunity-seeking activities, where the term implies “entrepreneurial” activities in which the firm engaged into new product or market generation, to formulate entrepreneurial strategies to gain competitive advantage (Ireland, Camp, & Sexton, 2002). Most studies in strategic management study the defined competition over traditional rivals, where it was inquired in competitive dynamics, multimarket competition theory, and positioning school. The Competitive Dynamics suggests that the strategy is formulated and implemented in action and reaction base (Chen M. J., 1996), and the perceived competitive tension of the organization depends on historical interaction between firms over time (Chen, Su, & Tsai, 2007). With similar logic, multimarket competition suggests that the firm motivated to simultaneously operate in several markets with rivals in order to increase interdependence with the rival firm (Edwards, 1955). However, other multimarket competition theorists suggest that the competition goes beyond the traditional mutual forbearance logic, where strategies not always formulated intentionally to exploit interdependence, it also might be due to the chance of multimarket contacts (MMC) (Korn & Rock, 2001). Following this logic, this study is questioning, is the firm limited with the current boundary of competition? Does the nature of entrepreneurial activities differ from strategic activities toward traditional competitors?
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Literature review

The dynamics such as the rapidly changing environment of the industry led to a change in competitive boundaries, so previous non-rival firms become more direct competitors. This research focuses attention on change in a market commonality, specifically how non previously non-rivals due to the radical changes will increase market commonality. Previous research found, that firms tend to engage in a SE simultaneously involving in explorative and exploitative activities to gain sustainable competitive advantage (Ireland, Camp, & Sexton, 2002). SE is considered a comparable new construct that emerged at the beginning of this century. As a construct, SE is emerged by integrating the strategic management and entrepreneurship disciplines (Ireland, Hitt, & Sirmon, 2003). According to this perspective, simultaneous involvement in advantage seeking activities, whereas it considered as strategic when the firm wants to expand the advantage over traditional competitors, and in opportunity-seeking activities, where the term implies “entrepreneurial” activities in which the firm engaged into new product or market generation, to formulate entrepreneurial strategies in order to gain competitive advantage (Ireland, Camp, & Sexton, 2002). Exploitative activities are directed to developing, exploiting, and sustaining the current competitive position, while explorative behaviors directed to recognizing, evaluating, and exploiting the new to the firm opportunities. SE seeking approaches takes the assumption of effectively manage their firms’ portfolio. Precisely, they should able to structure, bundle, and leverage resources to enable simultaneously focus on both exploitative and explorative approaches (Sirmon, Hitt, & Ireland, 2007). In recent decades the research of the strategic management field shifted from positioning and game-theoretic approach to competitive dynamics perspective. From this point, the strategy of the firms depends on competitive interaction between rivals, and the strategy formulated on action and reaction base
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(Chen M. J., 1996). Competitive dynamics assumes that the firms highly engaged in competitive action in order to gain competitive advantage (Smith, Grimm, & Gannon, 1992), and in that action and reaction context, the resources advantages are created and destroyed (Grimm C. M., Lee, Smith, & Smith, 2006). (Mintzberg, 1978) considered the strategy as a pattern (thematic consistency) in the set of decisions. By that, he emphasized the good degree of coherence on rivals’ behaviors over time. (Chen M. J., 1996) introduced the framework of competitor analysis, where the firms analyze on two dimensions: Market Commonality (MC) and Resource Similarity (or strategic similarity(SS)). Due to the different resource endowments in resources, firms will experience different degrees of competitive identifications and tensions. This perspective helps to measure the likelihood of the response, and the tension of the response. Additionally, this study looking for an answer from the headquarter’s point of view, by integrating the Competitive Dynamics school and Multimarket Competition theory. Previously, most of the researches in these fields considered on a business unit level and market-level in a business unit, so the paper of (Yu & Albert A. Cannella, 2013) suggested that the competitive tension between firms may differ on the business unit level and corporate level (the business unit may perceive the rivals differently from the headquarter level). The multimarket competition construct uses the logic of mutual forbearance (Edwards, 1955), where the firm tends to compete in multiple markets and enter each market in order to be aware of interdependence, as a result, to minimize the risk of retaliation. A number of researches found the support for the mutual forbearance logic (Baum & Korn, 1996; Gimeno & Woo, 1996; Gimeno & Woo, 1999), also the found inverted U-shaped relationship between entry and exit actions with the extend if Multimarket Contact (MMC) (Baum & Korn, 1999). However, the previous research argued that mutual forbearance logic commonly used in exploitative activates and does not fit during the explorative actions (Anand,
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Mesquita, & Vassolo, 2009). Because of this argument, this study distinguishes the exploitative and explorative activate, and considers it as a separate construct in comparison to the propositions of (Withers, Ireland, Miller, Harrison, & Boss, 2018).

**Exploitative activities**

Effective positioning in a marketplace considered an effective source of competitive advantage and value creation (Porter, 1980). The firms tend to engage in these activities to have power over enhancing, exploiting, and sustaining current advantages over traditional competitors. This construct of Strategic Management purposed to keep the sustainability of competitive advantage which drives the firm’s performance (Ireland R. D., 2007). (Ireland, Hitt, & Sirmon, 2003) emphasized the importance of orchestration of core competencies to maintain the competitive advantage when the firm involved in SE. (Ireland & Webb, 2007) conceptualize the exploitation activities by firms seeking for designing the scope, managing the key resources, developing competitive advantages, and advantage seeking behaviors. Additionally, it suggested that firms highly focus on exploitation by concentration on core businesses and expanding it incrementally during the relatively calm and stable environment (Ireland & Webb, 2009; Ireland & Webb, 2007).

**H1:** If the firm involved in exploitative activities, the likelihood of entry to the common market will increase.

**Explorative activities**

In contrast to the exploitative activities, there have researched fewer studies on explorative activities. The term comes from “Entrepreneurship” discipline, which means firm-level activities for constantly seeking for novelties in product and expand the business by capturing the new market needs (Ireland, Hitt, & Sirmon, 2003; Withers, Ireland, Miller,
Harrison, & Boss, 2018). Mainly researches Competitive Dynamics perspective focused on explorative actions, where the process of the strategy formulated and implemented in action and reaction base (Chen M. J., 1996). In innovation management, this term also defined as a disruptive innovation (Christensen, Raynor, & McDonald, 2015). Explorative activities combining with exploitative activities are assumed the main cause of competitive landscape shift, where previously unmet companies become competitors (Withers, Ireland, Miller, Harrison, & Boss, 2018; Hitt, Ireland, Camp, & Sexton, 2002). Suggested that the firm with limited capabilities to exploit the current competitive position, engaged in searching for entrepreneurial activities (Grimm C. M., Lee, Smith, & Smith, 2006). Moreover, it might be due to when the motivation for growth outstrips the cost of it, also the leadership practices and growth-oriented cultural aspects cause the opportunity-seeking behavior which goes beyond the competitive domain (Livengood & Reger, 2010). This is also known as competitive radicality, extend to which the firms depart from the existing market (Grimm C. M., Lee, Smith, & Smith, 2006). While the exploitative activities focus on incremental small changes, radical actions are characterized in dramatic movement from the status quo (Dutton & Duncan, 1987).

H2: If the firm involved in explorative activities, the likelihood of entry to the common market will decrease.

**Competitive landscape shift**

Small studies conducted about the nature of the competitive landscape. (Chen M. J., 1996) first proposed the competitive landscape on a firm-level in contrast to the positioning level, which is considered at a macro level. The framework suggests the competitive landscape lies along the market commonality line. The competitive shift due to the interaction between rivals might result in previous non-rivals become more direct competitors as it reflects in the market
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commonality shift (Withers, Ireland, Miller, Harrison, & Boss, 2018). Another study suggests, the blurring industry boundaries between separate industries create opportunities and threats for the firms and cause new competitive interactions with new firms (Hsu & Prescott, 2017). Additionally, suggested that entrepreneurial actions in SE may go beyond the industry convergence and induce radical actions that blurring the competitive boundaries (Burgelman & Grove, 2007). By pursuing such opportunity directed actions the firm may reduce the market commonality with strategic similar rivals. The authors also suggested the SE actions may cause the change in the market commonality, however, the firm may not lose the old ones (Withers, Ireland, Miller, Harrison, & Boss, 2018).

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exploitative activities with traditional competitors and engagement into beyond traditional competitive boundary explorative activities cause the market commonality. Hence, following similar logic it claims as the firm engaged exploitative activities frequently due to the high interaction with traditional rivals, the firms might have the motivation to engage in radical competitive actions due to the high competitive tension with traditional competitors. The firm involved in SE constantly looking for M&A to decrease the rivalry, manage the interdependence of the input and outputs, and diversify the operations which lessen the dependence on present businesses (Pfeffer, 1976), also for strategic alliances and innovations (Ireland & Webb, 2007). A previous study defines the effect of competitive tension on strategic innovations, and each company has different tension on different rivals (Gündüz & Semerćiș, 2012). The study suggested theoretical derived objective measurements can be used to measure the competitive tension.

While the landscape is defined in a market commonality, it does not imply the two firms are strategic similar. The companies within one market may have similar market commonalities, however, due to the different characteristics and resource endowments they might have different natures of behaviors. The theorists define the strategic similarity constructs as the number of resources possessed by firms, which implies how the two firms indirectly competing with each other (Chen M. J., 1996). The author noted that it can be a reason for why the firms have different motives for competitive moves and response delays. Hence, the competitive moves vary in terms of exploitative and explorative activities due to the firm’s conceptions of rivals. (Withers, Ireland, Miller, Harrison, & Boss, 2018) proposed the conceptual framework where they emphasized that the nature of the competition depends on resource similarity that the company possesses. Authors also proposed that both engagements in advantage seeking and
opportunity-seeking approaches may cause the shift in a landscape, which may or may not change the competitive landscape with a current rival, however, the firm might engage in non-related to the rival activities. Also, this study focuses on testing the actions of market commonality that may differ due to the competitive tensions between firms. If the firm tends to respond to each other frequently due to the high strategic similarities. I also argue that the tension of the competitive moves may differ due to the which combination of explorative and exploitative actions the firm follows. As the conglomerate firm tend to have different motivations in competitive moves, I argue that the competitive landscape shift occurs commonly at the headquarter level.

Concluding all findings, I hypothesize that:

H3: The competitive tension and market landscape shift are positively related to each other.

H4: The competitive tension positively related to the change in market commonality.

H5: Strategic similarity moderates the relationship between tension and landscape shift

H6: Strategic similarity moderates the relationship between tension and market commonality

Methodology

Industrial context

I tested the theory analyzing the entries of three conglomerate firms in consumer good segments: P&G and Unilever. These firms are selected due to size and the comparable equality in size (Revenue of 82.67.687 billion USD (P&G), 51.980 billion USD (Unilever) to the end of 2019) comparing with other smaller players in the industry. The consumer good industry is taken as a core because the comparable low industry growth pushes the company to be frequently
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involved in M&A activities, where it is appropriate to measure the product market entries. The merger & acquisition is selected due to the previous propositions of authors, where they emphasized the appliance for both explorative and exploitative activities (Ireland & Webb, 2009; Ireland & Webb, 2007).

Data

The data consist of M&A history between 1995 – 2019. Data is retrieved from Refinitiv Eikon™. The study does not contain exit history, due to the study design. The segments are measured in a 4-digit SIC (Standard Industrial Classification) code. In a total of 79 cases of P&G, and 158 cases of Unilever are analyzed. The study analyzed the cases where conglomerates acquired, merged, and bought a stake in a particular business. The market classification is allowed to determine the entry whether it is explorative or exploitative activity. I took the explorative activities as entry to the existing market where the company had been already operating, and exploitative activities as a new to the company segments. E.g. The merge between P&G and Gillette is considered as explorative to P&G in 2005 because the company did not operate in a grooming segment (SIC 3421) yet. And the acquisition of Wella AG in 2003 is considered as exploitative due to the already present in Perfumes, Cosmetics, and Other Toilet Preparations segment (SIC 2844). The analysis is made on dyadic action and reaction, where I compare two companies during the historical interactions. These diversified businesses are chosen to find anomalies that help us to understand the cause.

| The company | Total cases | Explorative cases | Exploitative cases |
|-------------|-------------|-------------------|--------------------|
| P&G         | 79          | 9 .0%             | 24 .0%             |
| Unilever    | 15          | 5 .2%             | 22 .14%            |
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Variables:

Explorative and exploitative variables

According to our hypothesis, in total 4 variables are measured: Explorative activity, Exploitative activity, Competitive tension, and Market Commonality. It was coded 1 if the firm entered the explorative segments in the explorative analysis (Exploitative is 0), and vice versa, exploitative is 1 (explorative is 0) in the exploitative entry. The variables are calculated in a two ways, first it is taken the cumulative number of entries for activities, and average to the cumulative numbers in a competitive tension and market commonality variables. In a second history, to and improve the robustness the activities are divided into parts of each 10 cases in order to see the historical dynamic of entry.

\[
\sum_{t} Explore_t \quad \text{Exploitative activities:} \quad \sum_{t} Exploit_t
\]

The explorative activity variable is measured in the sum of explorative activities in given n number of entire strategic entrepreneurship activities. The same logic applies to the exploitative activities.

Competitive tension (1):

In the competitive tension variable, the logic follows the AMC model, where the probability of attack depends on whether the companies perceive each other as direct or indirect competitors. The formula is adjusted form previous similar work (Anand, Mesquita, & Vassolo, 2009), where they measured the multimarket contact with rivals. The probability of entering to the common market in exploitative activities are measured in \( ExploitCM_{entry} \) till n activities, which is the sum of exploitative activities which were in a common market with a rival, divided by \( \sum Exploit \), which is the cumulative sum of entire exploitative activities till n number of
exploitative activities. In explorative activities, the measurement follows the same logic, where the sum of explorative activities which were to the common market ($\sum ExploreCM_{entry}$) divided by the cumulative sum of explorative activities ($\sum Explore$) of the firm. Additionally, it was generated alternative measurement, due to the small number of explorative activities, which may not valid in some cases to measure the how firm reacts to rival in dyadic interactions. The mathematical formulation is listed below:

Model 1:

$$P_{exploit} = \sum_{i}^{i+\frac{1}{4}t} \frac{ExploitCM_{entry_i}}{Exploit_i}$$

Models 2:

$$P_{exploit} = \sum_{i}^{i+\frac{1}{4}t} \frac{ExploreCM_{entry_i}}{Explore_i}$$

Alternative formulation analyzed for the competitive tension due to the change of context of the study in a second hypothesis. The measurement of competitive tension in a previous hypothesis is adjusted in order to see the picture of changing the probability by the additional activities, which were appropriate to distinguish the differential effect of explorative and exploitative activities. As (Chen M. J., 1996) reported that strategy consists of dynamic interaction rather than static positioning, the second measurement is taken to see the dynamics of change of tension between firms within a $i$ number of cases. The dynamic is measured of number of M&A to a common market in cases between $i$ and $i + \frac{1}{4}t$ periods, where $t$ means the entire total number of cases till 2019, and $i$ means the cases common market entry cases till $i$ case. The
reason for selection $\frac{1}{4}$ (quartile) is to increase the robustness and measure the change of dynamics of action and reactions. For simplicity, the formula is given below:

$$Competitive\ tension = \sum_{i=\frac{1}{4}t}^{i+\frac{1}{4}t} \frac{CMentry\ cases}{Total\ m&a\ cases}$$

**Market commonality & Competitive landscape shift:**

The research purposed to find the relationship between the dynamic of competitive landscape shift and market commonality. The measurements are formulated according to the assumptions of (Withers, Ireland, Miller, Harrison, & Boss, 2018). The dynamics of landscape shift are measured in the share of unique markets out of the total market that the company operates (Model 3). The uniqueness of markets is derived from the difference in mean of total market ($x_1$) served by the firm by last quartile activities ($\frac{1}{4}t$) and mean of common markets($x_2$) served by the firm with a rival by last quartile activities ($\frac{1}{4}t$).

Model 3:

$$Dynamics\ of\ competitive\ landscape\ shift = \frac{x_1 - x_2}{x_1}$$

Where, $x_1 = mean\ of\ the\ last\ \frac{1}{4}t\ total\ markets$ ,

$x_2 = mean\ of\ the\ last\ \frac{1}{4}t\ common\ markets$

The market commonality is measured by the firm’s common market served with the rival of last $\frac{1}{4}t$ activities. The $\frac{1}{4}t$ duration is taken in order to see the robustness and dynamic of changes in a commonality. For simplicity, the mathematical formulation listed below:

Model 4:
Market commonality \( = \bar{x}_2 = mean \ of \ the \ last \ \frac{1}{4}t \ common \ markets \)

The moderating role of Strategic Similarity

The same logic applies to model 3 and model 4 with the moderation of Strategic Similarity. This research measures the strategic similarity in a share of sales of common markets in total sales. The logic is, as most of the sales come from common markets, the firms may see each other as a direct competitor, where the resource endowments are similarly allocated in common markets. As it is analyzed the similar-sized firms, the study does not take the size as a measurement, where previously works frequently assumed.

\[
Strategic \ Similarity = \frac{Sales \ from \ common \ market}{Total \ Sales}
\]

Results:

The study divided the finding into dyadic analysis between firms, where the regression analysis is conducted. Each analysis is conducted individually in order to see the relational interaction and changes. In total 3 case studies (6 sub-cases) are analyzed: A case study of P&G, Unilever. Model 1 and 2 explain the effect of exploitative and explorative activities on competition tension. Models 3,4 explains the direct effect of Competitive tension on Landscape Shift and Market Commonality, and Models of 5,6 explains the moderating role of Strategic Similarities for the same models sequentially.
Case study: Unilever

**Unilever (against P&G)**

Table 1

| VARIABLE S | Tension (Model 1) | Tension (Model 2) | Landscape shift (Model 3) | Commonality (Model 4) | Landscape shift (moderator) (5) | Commonality (moderator) (6) |
|------------|-------------------|-------------------|---------------------------|----------------------|-------------------------------|----------------------------|
| Exploitative activities | 0.00425***       |                   |                           |                      |                               |                            |
| Explorative activities |                   | (0.00)            |                           |                      |                               |                            |
| Competitive tension |                   | 0.526***          | 0.840**                   |                      |                               |                            |
|                      |                   | (0.03)            | (0.35)                    |                      |                               |                            |
| Competitive tension (moderator SS) | 1.016***          |                   |                           |                      | 8.931***                     |                            |
| Constant            | 0.178***          | 0.0691**          | 0.518***                  | 11.66***             | 0.179***                     | 4.251***                   |
|                      | (0.02)            | (0.03)            | (0.01)                    | (0.13)               | (0.01)                       | (0.07)                     |
| Observation s       | 93.00             | 27.00             | 119.00                    | 119.00               | 119.00                       | 119.00                     |
| R-squared           | 0.80              | 0.02              | 0.71                       | 0.05                 | 0.86                         | 0.85                       |

Standard errors in parentheses: *** p<0.01, ** p<0.05, * p<0.1
### P&G (Against Unilever)

Table 2
The result of regression analysis for Competitive Tension, Landscape Shift and Market Commonality

| VARIABLES                        | Tension (Model 1) | Tension (Model 2) | Landscape shift (Model 3) | Commonality (Model 4) | Landscape shift (moderator) (Model 5) | Commonality (moderator) (Model 6) |
|----------------------------------|-------------------|-------------------|---------------------------|-----------------------|---------------------------------------|-----------------------------------|
| Exploitative activities          | 0.00483**         |                   |                           |                       |                                       |                                   |
| Explorative activities           |                   |                   |                           |                       |                                       |                                   |
| Competitive tension              |                   |                   |                           |                       |                                       |                                   |
| Competitive tension (moderator SS)|                   |                   |                           |                       |                                       |                                   |
| Constant                         | 0.410***          | -                 | 11.19***                  | 0.328***              | 5.195***                              | 0.154***                          |
| Observations                     | 46.00             | 15.00             | 60.00                     | 60.00                 | 60.00                                 | 60.00                             |
| R-squared                        | 0.10              | 0.19              | 0.26                      | 0.57                  | 0.58                                  |                                   |

Standard errors in parentheses: *** p<0.01, ** p<0.05, * p<0.1

In a case study of Unilever against others shows also vary the relationship between variables. The study against P&G and Unilever show a significant result at <0.01 level in models
It finds a complicated result in explaining the direct effect of competitive tension to market commonality. However, it found a significant result if it moderates by strategic similarity following the model of the study. The finding in explorative activities does not find any statistically significant supports for both cases.

**Discussion and Conclusion:**

The results of this study emphasize the significant positive relationship between exploitative activities and competitive tension. The finding supports the findings of earlier researches. The company has the motivation to actively engage in exploitative activities to expand its current competitive advantage in a traditional market. The findings show that the companies engage frequently in exploitative activities than explorative, so at the same time increase the competitive tensions between rivals. The finding shows the dynamics of interactions are inverted U shaped as founded in an earlier study (Haveman & Nonnemaker, 2000; Baum & Korn, 1999; Anand, Mesquita, & Vassolo, 2009), I also find that the trend of dynamics goes upward this seasonality effect. The findings also show the lack of relationship between explorative activities and competitive tension. It might be explained that the firm actively engaged in activities that are unrelated to the competitive market, so lack of data sufficiency can be explained reject for that hypothesis. As it is not related to common markets, the companies actively engaged in exploring the new capabilities outside of the current competitive landscape. This finding contributes that the tension of activities relates to the proportion of exploitative and explorative activities may affect the tension due to the different effects.

The findings show that the more strategic similar firms (P&G and Unilever) involved in exploring the new competitive landscapes beyond the competitive landscape. The reason is can be considered the tension of perceived firms, as the strategic similar firms due to the increase in a
competitive tension have a motivation to go beyond the traditional markets which it operates, and become more direct competitors with new rivals. However, it is not necessarily mean that competitive tension will decrease the market commonality between close rivals. The findings show that with the moderating effect of strategic similarity, the market commonality increases with the tension increase. Tension both causes to increase in a landscape with direct rivals as well as the new rivals (or less strategic rivals). The study found the support for the propositions of (Withers, Ireland, Miller, Harrison, & Boss, 2018), by finding the significant moderating role of strategic similarity and changes in a landscape with traditional competitors.

Concluding all findings, the nature of explorative activities is different from the exploitative activities. While exploitative activities mostly purposed to expand the advantages over the traditional competitive landscape, the explorative activities purposed to expand the landscape toward a new competitor by increasing the current landscape. The study found that the firms engaged in increasing the current competitive boundaries as well as new to them competitive boundaries.
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