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# Competition, innovation and new company growth: Evidence from New Zealand

How do competition and innovation affect the growth of newly-established companies or young ventures? Recent New Zealand empirical research into how young ventures expand explores the effects of competition and innovation, both as separate factors and in combination.**

By itself, competition, or competitive "density", cuts both ways for growth. Having too many competitors makes it hard for a firm to differentiate itself from competitors. Having too few can signal insufficient demand and strand firms' offerings without well-accepted comparators, putting off leery potential customers. Plus, newcomers lacking rivals to watch must learn from their own, growth-stifling mistakes. In between these extremes could be a happy median, where entrepreneurs can leverage an existing market without over-exposure to hostile competitive forces. The researchers therefore hypothesised that moderate competitive density would maximise young venture growth.

By itself, innovation generally favours growth. It lets young ventures escape competitive pressure and create sheltered niches and strong customer links. "Persistent" or incremental innovation offers lasting productivity improvements, whereas one-off innovation only boosts growth short-term. Happily, the persistent form also spreads risks and costs for vulnerable fledgling firms; yet the total costs are still high. Overall the researchers hypothesised that persistent innovation would favour growth.

The study surveyed 180 New Zealand-based service and manufacturing businesses aged under ten years, split between low-tech and more innovative high-tech ventures. The limited domestic opportunities in such small, open and remote economies often push businesses offshore for growth, incurring overseas competition. Meanwhile, New Zealand's deregulated trade policies expose its firms to dense foreign competition at home, too. Competitive density, in this study, was measured by how many serious rivals entrepreneurs or CEOs perceived.

Results bore out both the hypotheses. Too much and too little competition eroded growth, whereas moderate density maximised it. Meanwhile, persistent innovation – defined as the firm having both been founded to implement a new business idea or invention and introduced a new-to-market innovation in the last three years – was confirmed as promoting growth. Over three years, persistent innovators averaged 24% growth; non-persistent innovators, only 9%. Moreover, 40% of non-persistent innovators had falling turnover, versus just 25% of persistent innovators.

A third hypothesis about the combined effects of competition and innovation predicted competitive densities would impact the persistent innovators less. They did. Persistent innovation smoothed the effects of competition. There are several potential reasons for this effect. First, sustained investment in innovation commits firms to growth strategies. Secondly, persistent innovators can grow with the market and time their innovations strategically. Thirdly, in a virtuous circle, successful innovations spur further investment in innovation capabilities.

This research suggests lessons for young firms' strategy and New Zealand entrepreneurs seeking growth either internationally (often into Asia) or domestically. First, ignore competitive density at your peril. Second, if you are not a persistent innovator, target a niche that promises moderate density: differentiating too heavily might leave you below the competitive sweet spot while imitating excessively might push you over it. Third, if you are a persistent innovator, focus on overall market growth, not the challenges traditionally feared from dense competition. Finally, wherever possible, do try to innovate – persistently. Despite its difficulties, persistent innovation shelters young ventures from the vagaries of competition. Here it nurtured growth even more than did building collaborative networks. In light of these findings, policymakers considering opening up home markets to competition should assess domestic firms' innovative capacities and try boosting them.

**The full study results are available in an article authored by Hugh Whittaker, Benjamin Fath and Antje Fiedler: "Open to competition? Competitive density and the growth of young New Zealand ventures". Australian Journal of Management. Published online 6 November 2019. DOI: 10.1177/0312896219883914

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