

Firm Survival: Adding Transferred Demand into the Equation

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Principal Topic

Despite genuine attempts to develop more contingent theories of population change that incorporate adaptationist and selectionist accounts, little evidence of a united framework has emerged to date. While this current diversity of opinion may contribute to the eventual quality of knowledge development (Singh, 1993), it nevertheless appears to be a debate that continually fails to incorporate essential evolutionary concepts. This paper attempts to introduce the neglected (and essential) evolutionary process of niche construction (Olding-Smee, Laland and Feldman, 2003) into this ongoing debate. The niche construction process is used to highlight a change in environmental selection directly related to the market place behaviour of certain firms in the Hobart pizza industry. It is claimed in this paper that a process of transferred demand can be identified as a generative mechanism through which firm survival (in specific selective neighbourhoods and/or niches) was enhanced. Specifically, that regional pizza shops have received a survival advantage through the presence of franchised firms due to the process of transferred demand. In brief, transferred demand occurs when television advertising aimed at metropolitan and suburban consumers creates demand in regional areas (for a product/service) that the advertiser cannot supply. As such, regional firms benefit and survive significantly better than other regional firms who don't benefit from any fortuitous industry-based advertising.

The use of niche construction and many other key ecological or biological evolutionary concepts to explain the emergent findings from the Hobart pizza industry highlight a current problem in evolutionary theorising, that being a lack of consistency. Hodgson, (2001, p. 92) argues that "explanations in one domain have to be consistent with explanations in another, despite examination of different properties and deployment of different concepts". This simple, yet exacting principle requires that in many instances we must go backwards (in degrees of understanding) before we can advance. It is around this central premise that this paper attempts to make a contribution to the growing literature related to an evolutionary account of entrepreneurship.

Methodology/Key Propositions

Conducted within the scientific realism paradigm (Bhaskar, 1975), the case study of the Hobart pizza industry has used a combination of analytical induction (Denzin, 1978) and processual case design (Pettigrew, 1997) to investigate underlying processes related to firm survival and demise. This has included data received from unstructured interviews and analysis of archival phone listing records. This approach has enabled both accurate and codable data to be used in conjunction with data representative of the views of the operators across the life course of the industry. The phone listing records in particular offer valuable insights (Evans & Usher, 1996) into the goals, boundaries and activities of each firm over time. They provide access to a snapshot of what was being offered for consumption vis-à-vis other competitors and the nature of the operating environment. The development of the causal argument through postulates has been guided by Gerring's (2005) formal criteria to distinguish a good causal argument from an incomplete or uninteresting one and Mahoney's (2003) development of outcome explanations. As such, the method used supported the testing of postulates that support the initial outcome of interest observed in the Hobart pizza industry. Preliminary postulates are as follows:

Postulate 1: When a population's legitimacy and density are low, franchised entrants will act a manner that increases overall primary demand for their good/service, thus decreasing the threat of external selection to all other firms.

Postulate 2: When a population's legitimacy and density are high, franchised entrants will act in a manner designed to increase selective demand for their good/ service, thus increasing the threat of external selection for all firms competing in the same selective neighbourhood and niche.

Postulate 3: Independent firms will still benefit from transferred demand if they are (a) operating in a different selective environment to that of franchised firms, and/or (b) are exploiting a different environmental niche.

Results and Implications

Using Gerring's (2005) formal criteria to distinguish a good causal argument from an incomplete or uninteresting one, there appears to be empirical support for the postulates outlined above vis-à-vis their relationship to the observed outcome of an observed survival advantage for regional pizza shops in the Hobart pizza industry. The most obvious implications of these preliminary findings is that the causal argument has been developed from concepts rarely (if ever) used in organisational studies. As such, it provides support for Hodgson's (2001) principle of consistency and brings to the attention of researchers in the various domains of organisational research an old set of new tools for future research.

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