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Interfirm Rivalry and Market Performance of Indonesian Broadcasting Industry

ABSTRACT

Competitive asymmetry—the notion that two firms may not view their relationship or interaction in the marketplace equally— is very prevalent in business competition. Simply put, a firm's managers and outside stakeholders will perceive the rival with the resource profile most similar to the firm's own and/or with the highest salience regarding the resources critical to the firm's operations as posing the greatest challenge to the firm's operational capability - and therefore, as imposing the greatest competitive tension. This study examines the effect of competitive asymmetry, similarity of resources and market commonality - salience, on market performance in the Indonesian broadcasting industry. Based on the secondary data released by Nielsen Research, this study adopted conceptualizations of competitive dynamics. The results indicate that greater similarity among TV stations lead to higher TV ratings, while the opposite effect applies on salience. Further analysis indicates that there is an interaction effect between similarity and salience. There is a slight difference between high and low salience when a greater similarity between the two TV stations exists, while under low similarity, this indicates a greater salience which leads to lower TV ratings. Academic and managerial implications are further discussed in this study.

KEYWORDS: Competitive Asymmetry, Salience, Similarity, Competitive Dynamics, and the Broadcasting Industry

INTRODUCTION

Competitor analysis occupies a central place in strategy and organizational research (Hitt, Ireland, & Hoskisson, 2007; Smith, Ferrier, & Ndofor, 2001). Scholars have investigated various definitions of a firm's competitors (Porac, Thomas, Wilson, Paton, & Kanfer, 1995; Reger & Huff, 1993). Defining or identifying competitors is an important but complicated task that involves careful evaluation of the tension between a focal firm and each of its competitors (Chen, Su, & Tsai, 2007). Without such evaluation, a firm may underestimate the threat posed by a competitor or inadvertently allow a rival to go unnoticed (Zajac & Bazerman, 1991). Important contributions have been made in refining competitor definitions and identifications; however, the literature continues to be constrained by an approach that centers on the focal firm.

Based on competitive dynamics as the study of inter-firm rivalry based on specific competitive actions and reactions, their strategic and organizational contexts, and their drivers and consequences (Baum & Korn, 1996; Smith et al., 2001). The identification of a firm's rivals based either on objective criteria (e.g., industry or group affiliation, size or market share, customer overlap) (e.g., Ang, 2008; Baum & Lant, 2003) or on perceptions or opinions of the firm's strategies (e.g., Chen et al., 2007; Tsai Su, & Chen, 2011). This study employs objective criteria to examine the effect of competitive interaction on action-level studies to determine market performance. An action is defined as a specific and detectable market move initiated by a firm, such as introducing a new product or entering a new market; such actions may erode a rival's market share or reduce its anticipated returns. A response is a specific and datable counter-move, prompted by an initial action that a firm takes to defend or improve its share or profit position in its industry (e.g., Boyd & Bresser, 2008; Lee, Smith, Grimm, & Schomburg, 2000).

In the context of inter-firm competition, the most salient relationship is *market engagement*, which reflects the extent to which the members of a pair of firms interact and engage in each others markets as well as the strategic importance of these markets from both a focal firm's and the target rival's perspectives (Chen, 1996). As many studies have suggested, two firms come

to know one another through competitive interactions in different markets and, more importantly, the way they engage in each other's markets shapes their respective perceptions and behaviors in the competitive arena (e.g., Baum & Korn, 1996; Gimeno, 1999).

Competitive asymmetry—the notion that two firms may not view their relationship or interaction in the marketplace equally—is very prevalent in business competition (Chen, 1996; DeSarbo, Grewal, & Wind, 2006). It is unlikely, for example, that two rivals will perceive every competitive action or relationship in the same way. Due to differences in assumptions about industry outlook and disparate organizational arrangements and preferences, rivals may differ in their views of their competitive relationship (Tsai et al., 2011), which might result in different outcomes for the competing firms.

Simply put, a firm's managers and outside stakeholders will perceive the rival with the resource profile most similar to the firm's own and/or with the highest salience regarding the resources critical to the firm's operations as posing the greatest challenge to the firm's operational capability - and therefore, as imposing the greatest competitive tension (Chen et al., 2007). The inclusion of similarity and salience considerations in the conceptualization of this construct is in line with Porac and Thomas's observation: "Two organizations are similar if they share important attributes and hence tap the same resources in the task environment. Because critical resources are usually scarce, similar organizations are usually competitively interdependent" (1990: 225).

The AMC framework of competitive dynamics provides an integrative model of the three key behavioral drivers that shape a competitor's actions and responses (Chen, 1996; Grimm, Lee, & Smith, 2006; Smith et al., Yu & Cannella, 2007). Simply stated, a competitor will not be able to respond to an action unless it is aware of the action, motivated to react, and capable of responding (Chen et al., 2007). This study focuses on capability to respond, in which capability is signaled by a rival's capability to contest (defined as the operational ability of a given rival to challenge a focal firm in the marketplace) and describes the rival's relative resource-deployment ability (compared with the focal firm's); this ability in turn influences assessments of the intensity of the competitive relationship by both the firm's managers and industry stakeholders (Chen et al., 2007).

Baum and Korn (1996, 1999) showed that for competitors in a dyad, rates of competitive market entry and exit increased with the degree of overlap between their market domains. Researchers were able to demonstrate empirically that these attributes of response were functions of three different characteristics: (1) attributes of the attack, such as difficulty of implementation, the amount of effort and time required for execution, and the visibility or degree of industry attention (Young, Smith, & Grimm, 1996); (2) characteristics of the attacker, such as the degree of organizational commitment to the attack (Chen, Smith, & Grimm, 1992); and (3) characteristics of the defender, such as a competitor's dependence or a defender's stake in the market under attack (Baum & Korn, 1999). The research also demonstrated the performance consequences of different types of competitive interactions (Boyd & Bresser, 2008; Smith et al., 2001; Young et al., 1996).

Given the role of perceived tension in competitor analysis, it is essential to identify its key antecedents. According to the awareness-motivation-capability perspective, three behavioral drivers influence a firm's decision to act or respond: awareness, motivation, and capability (Chen, 1996). In competitive dynamics research (Smith et al., 2001), individual awareness-motivation-capability components are manifested in a range of variables, including action visibility and firm size (Chen & Miller, 1994) for awareness; territorial interests in different markets (Gimeno, 1999) for motivation; and execution difficulty and information processing (Smith, Grimm, Gannon, & Chen, 1991) for capability. This study focuses on the role capability to contest, which is stated under explored in many studies (Chen & Miller, 2012) and also the original dimension of competitive dynamics (Chen, 1996). In addition, Chen and Miller (1994)

found positive interaction effects between various triggers of competitive response, in this case capability to contest, which needs further investigation in this study.

HYPOTHESES DEVELOPMENT

The extent to which a rival's operational capability potentially challenges a focal firm in the marketplace (either with an attack or by responding to the focal firm's action) is a critical factor influencing market performance (Tsai et al., 2011). Each of a focal firm's rivals is endowed with various types and amounts of resources that are vital for its operation; consequently, each is equipped with different capabilities, in the eyes of the firm's managers and industry stakeholders, in its engagements with the firm. A rival's capability to contest derives mainly from two distinct but closely related circumstances (Chen et al., 2007). Similarity refers to when the rival and the focal firm have highly similar resource profiles, while salience occurs when the rival is a significant player in terms of the resource(s) the focal firm values most for its operation.

To elaborate, firms with similar resource profiles are likely to have comparable capabilities and competitive stances (Miller & Shamsie, 1996), and competitors with similar strategies and structures impose great pressure on each other (Heil & Robertson, 1991). Consequently, a focal firm's managers and industry stakeholders are likely to consider a rival with a similar operations resource profile to be a direct competitor. These arguments are in line with Gimeno and Woo's (1996) finding of a positive relationship between the strategic similarity of firms and the degree of their rivalry, and with Chen's (1996) prediction that the greater the resource similarity between a rival and a focal firm, the greater the likelihood that the rival will attack (or retaliate against) the firm. In the case of market performance in a TV industry, similarity resources lead a focal TV station uses a similar program of its rival to generate better TV ratings. The reason is better TV ratings generated by its rival indicate that viewers are familiar with and enjoy a particular show. Consequently, TV ratings will increase due to the familiarity of the viewers on particular TV shows. Thus,

H₁: A greater similarity between the two TV stations increases the level of TV ratings, while a smaller similarity reduces TV ratings.

Resources that are essential for operational and competitive success are generally limited and scarce within an industry (Barney, 1991). A rival's capability to contest a focal firm is determined by how salient the rival is in relation to resources that a focal firm values for its operation. Therefore, capability to contest is conditioned both by the strategic importance of a given resource to the focal firm's operation and by the rival's strength in this resource. Two firms are head-on opponents and will experience, in the eyes of their internal and external stakeholders, great tension if they rely on similar resources for operation and, more fundamentally, if each is a salient player in competing for the resources that are vital to the other (Chen, 1996). When the TV program is salient for focal TV stations, it might endanger its TV ratings when a similar TV program is also salience for its rival. On the supply side, they will compete to get the best talents (when they produce in-house, such as actresses or producers) or a TV program (when they outsource it to production houses). As a result, the production costs will increase and at the same time viewers have alternatives to watch the best TV programs at a similar time. Consequently, their TV ratings might reduce due to fierce competition between the two. Therefore,

H₂: A greater salience between the two TV stations reduces the level of TV ratings, while a smaller salience increases TV ratings.

In addition to the independent effect each salience and similarity has on market performance, there are likely to be interaction effects. Drawing on Vroom's (1964) expectancy-valence theory,

Chen and Miller (1994) found positive interaction effects between various triggers of competitive response. Obviously, the lower salience and similarity level leads to greater TV ratings than any other conditions.

H₃: There is an interaction between salience and similarity. The high similarity and low salience level lead to the highest TV ratings, while high salience and low similarity lead to the lowest TV ratings.

RESEARCH METHOD

Research Context

Our sample included 10 private TV stations competing against each other during a particular period in 2013. The broadcasting industry was an ideal research context because of its rich sources of public information, well-defined markets, and acknowledged intense competition among major players (Gimeno, 1999; Smith et al., 1991). We chose this period because it was characterized by the rapid entry of new private TVs, either national or local ones, and by the expansion of existing TV stations into new routes, followed by an industry consolidation through mergers and acquisitions (Morrison & Winston, 1995). The period also prior the drop of TV advertising expenditure due to the sudden increase in internet advertising expenditure which began in 2014. In addition, this study mainly focused on prime time, which started from 6 pm until 10 pm. The reason is more than 50% of TV viewers are watching and thus advertising expenses are spent between those times.

The advertisement expenditures in Indonesia are dominated by TV (for about 64%) in which it grows 15.2% annually (emarketer.com, 2013). In 2014, it reached \$11.18 billion and increased to \$14.21 billion in 2016 (zenithoptimedia.com, 2014). Since the market penetration of cable TVs is not large (about 5%, Nugroho et al., 2012), then the money was mostly distributed between ten free to air TV stations and was based on their ratings (market share).

The television industry in Indonesia first aired on August 24, 1962 (with the help of NHK Japan), to broadcast the Asian Games which was held in Jakarta (Ishadi, 2014). When Soeharto was seated in the presidential position since 1966, TVRI (Television of the Republic of Indonesia) under the Ministry of Information enjoyed a monopoly status to unite and inspire people to support the government's development programs. Sequentially, the government allowed five commercial TV stations to be established and aired nationally: RCTI (1987), SCTV (1989), TPI (1990), ANTV (1993), and Indosiar (1995); which were the first wave of commercial TV stations in Indonesia.

As the number of TV sets increased rapidly from 7.6 million in 1990 to about 20 million in 1997 (d'Haenens, Verelst, & Gazali, 2000), the five recently-launched commercial TV stations aggressively competed for a share of a growing audience and an expanding advertising market (Hollander, d'Haenens, & Bardoel, 2009). Without commercial revenues, the conventional TVRI cannot compete to attract audiences, particularly when the later five stations offer the combination of drama series, sitcoms, and "soft news."

Transparency in the media was in place when the new government issued deregulations that changed the landscape dramatically (Kitley, 2003), through issuing 1200 new printing licenses, 900 new commercial radio licenses, and five newcomers in national commercial TV stations (Metro TV, Trans TV, Global TV, TV7). Unlike the first wave, the owners of the new TV stations had no direct relationships with the regime and came from diverse backgrounds. For example, Bakrie Group owned ANTV and acquired Lativi (2008, later changed to TV One) with no background in the media industry. A banker owns Trans TV. Kompas Gramedia Group that owned TV7 was a big publishing company which had been closed down twice by Soeharto's regime, before being taken over by Trans TV in 2006. Besides these five new national TV stations, the Act also attracted many broadcasters to develop local TV stations (more than 240

local TV stations, in which only 41 stations joined the local TV associations). Although the number is vast, their share remains insignificant (2-3%, Nugroho, Putri, & Laksmi, 2012) compared to national TV stations.

Table 1 – National TV Channels and Group Affiliations

TV Channels	Year of Establishment (First on Air)	Current Status (Merged or Still Independent)
TVRI	1962	Independent
<i>1st wave of privatization</i>		
RCTI	1987	MNC Group (acquired)
SCTV	1989	SCM Group (acquired)
TPI	1990	MNC Group (acquired)
ANTV	1993	VIVA News (acquired)
Indosiar	1995	SCM Group (acquired)
<i>2nd wave of privatization</i>		
Metro TV	2000	Media Group (independent)
Trans TV	2001	CT Corp (merged)
Trans 7 (previously TV7)	2001 (re-launched in 2006)	CT Corp (acquired)
TV One (previously Lativi)	2002 (re-launched in 2008)	VIVA News (acquired)
Global TV	2001	MNC Group (acquired)

Research Variables

TV Ratings. To assess TV ratings, we used the Nielsen databases that record TV ratings for TV stations in Indonesia. TV rating, $RTV_{ij} = RTV_i / RTV_j$, where TVR_{ij} is the rating of TV i relative to TV j . Each TV rating is generated for 30 minutes each, starting from 6 pm to 10 pm.

Similarity captured the extent to which two TV stations had the same profile in terms of program structure. To measure similarity, we followed the formula used by Chen et al. (2007) to calculate the Euclidean distance, D_{ij} , between two TV stations (see the formula below). A zero distance indicated that two TV stations had exactly the same distribution of different types of TV programs, and a high degree of distance indicated that two TV stations had very different programs. We then reverse-coded D_{ij} to arrive at a measure of similarity:

$$D_{ij} = \sqrt{\sum_{m=1}^n [(P_{im}/P_i) - (P_{jm}/P_j)]^2}$$

where P_{im} = the total number of type m program aired by TV i , P_i = the total number of programs operated by TV i overall, P_{jm} = the total number of type m program aired by TV j , P_j = the total number of programs operated by TV j overall, and m = a type of program operated by both TV i and TV j .

Salience captured the extent to which a rival was a dominant player flying the aircraft that were vital to a focal firm's operations. It was calculated by following the modified formula used by Chen et al. (2007) as follows:

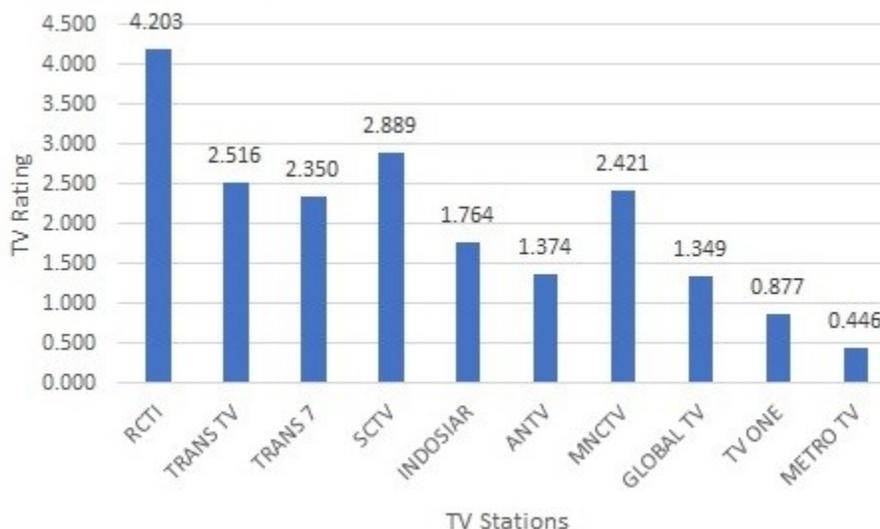
$$S_{ij} = \sum_{m=1}^n [(P_{im}/P_i) \times (P_{jm}/P_m)]$$

where P_m = the total number of type m program operated by all TV stations. In the calculation of salience index, S_{ij} , the first term, P_{im}/P_i , captured the strategic importance of a given type of program, for example a telenovela or a sport, to focal TV i . The second term, P_{jm}/P_m , reflected the share of a given type of program owned by rival TV j . We normalized the results so that the sum of the salience indexes for all given TV's competitors was equal to 1.

ANALYSIS

There were 32,850 units of TV programs aired in prime time during 2013. Four TV stations outsourced its TV programs from domestic production houses and accounted for more than 85%, which were RCTI, SCTV, INDOSIAR, and MNCTV. Three TV stations produced its programs in-house and accounted for more than 90%, which were Trans7, TV One, and Metro TV. At the same time, 4 TV stations used more than 90% of its prime time by airing movie programs (RCTI, SCTV, MNCTV and Global TV). Variety shows dominated TV programs of Trans7 and ANTV with more than 70%, and news was heavily used by TV One and Metro TV with more than 59%. In terms of movies, four TV stations (RCTI, Trans7, INDOSIAR, and MNCTV) aired Indonesian movies, and the largest was SCTV with 100% Indonesian movies. TV One and Global TV aired more than 85% Hollywood movies, followed by TransTV with about 46.47%. Ministeries were used dominantly by RCTI (60.83%) and SCTV (53.27%), while dramas were aired extensively by Global TV and Metro TV (100%) and ANTV (81.81%).

Figure 1 – TV Rating in Indonesia



In terms of ratings, RCTI had the highest TV Ratings - 4.203, followed by SCTV (2,888) and Trans TV (2,516) (Figure 1). Based on the formula RTV_{ij} , the average of TV Rating is =1.691 with $SD=2.078$. For further analysis, we used mainly movies as TV programs, which dominated up to 51.67%. The other types of TV programs were variety shows (25.39%, news (14.08%), sports (4.09%, reality shows (2.08%), and others (2.69%). In order to test the proposed hypotheses, this study uses hierarchical regression, since the research variables are measured using continuous variables. The use of regression can retain the continuous nature of the variables without losing information or reducing the power to detect the interaction effects (e.g., Aiken and West, 1991; Cohen, Cohen, West, and Aiken, 2003). However, there is the possibility

that variables might correlate with each other (high multi-collinearity), and thus this study applies the centering method to reduce these effects (Frazier, Tix, and Barron, 2004). The similarity has average (μ) value of 0.012 and $SD=0.655$ and salience has $\mu=0.048$ and $SD=0.071$.

Moreover, based on suggestions in previous studies (e.g., Chen et al., 2007; Tsai et al., 2011) this work uses three control variables: day, week, and group, which can all be related to TV Ratings (e.g. Shamsie, 1996). Specifically, this study controlled for time: day (coded '1' if Tuesday, '0' is otherwise, etc.; Monday as the baseline), week (coded '1' if week 2, '0' if otherwise, etc.; week 1 as the baseline). In terms of groups, we coded '1' if CT Group, '0' is otherwise; which is similar to other groups, while the MNC Group served as a baseline. Table 2 presents the regression results of the expected relationships.

Table 2 – Regression Results

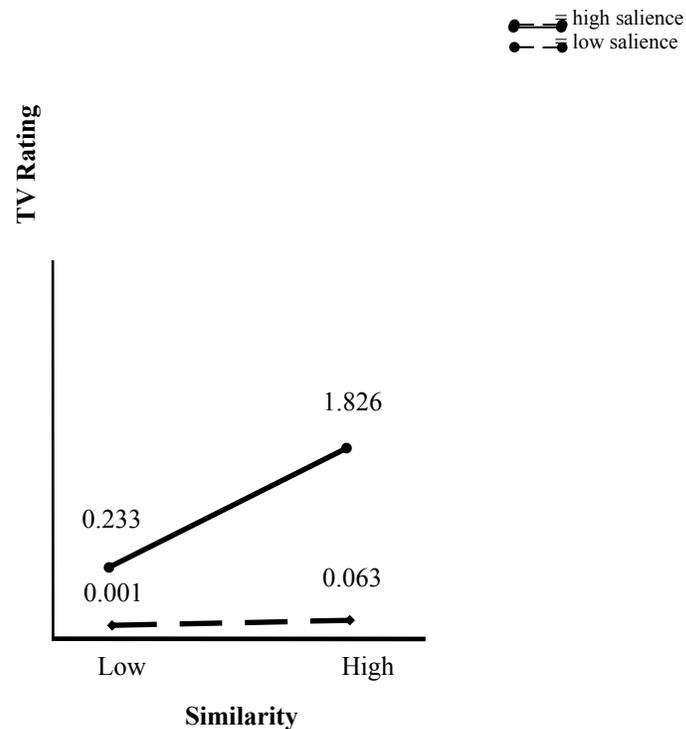
Research Variables	Dependent Variable – TV Rating			
	M0	M1	M2	M3
<i>Control Variables</i>				
Tuesday	-0.008	-0.008	-0.008	-0.008
Wednesday	-0.008	-0.008	-0.008	-0.008
Thursday	-0.009	-0.010 +	-0.013*	-0.013*
Friday	-0.006	-0.007	-0.010 +	-0.010*
Saturday	0.007	0.007	0.003	0.003
Sunday	-0.013 +	-0.012	-0.016*	-0.016*
Week 1	-0.045***	-0.040***	-0.025***	-0.025***
Week 2	-0.038***	-0.024***	-0.015***	-0.015***
Week 3	-0.045***	-0.031***	-0.023***	-0.022***
CT Group	-0.043***	0.090***	-0.008	-0.021***
EMTEK Group	-0.053***	-0.050***	-0.052***	-0.056***
VIVA Group	-0.260***	-0.086***	-0.217***	-0.216***
MEDIA Group	-0.294***	-0.156***	-0.261***	-0.257***
<i>Main Effects</i>				
Similarity		0.360***	0.272***	0.161***
Salience			-0.245***	-0.248***
<i>Interaction Effect</i>				
Similarity x Salience				-0.135***
R ²	0.113	0.201	0.245	0.251
ΔR^2		0.089	0.044	0.005
ΔF	320.748	3650.566	1913.311	240.668
p	0.000	0.000	0.000	0.000

Note: + represents $p < .10$, * represents $p < 0.05$; ** represents $p < 0.01$, *** represents $p < .001$

As exhibited in Model 0 (Table 2), control variables have coefficient of determination (R^2) for about 0.113 with significant F-value ($p=0.000$). Hypothesis 1 predicts that similarity of movies has a positive relationship with TV ratings. The results indicate that similarity positively relates to TV ratings significantly ($=0.360$, $p<0.000$, $\Delta R^2=0.089$, $p=0.000$ - M1), therefore H_1 is supported. Hypothesis 2 predicts that salience of movies has a negative relationship with TV ratings. The results indicate that salience negatively relates to TV rating significantly ($=-0.245$, $p<0.000$, $\Delta R^2=0.044$, $p=0.000$ - M2), thus H_2 is supported. While Hypothesis 3 posits that similarity and salience interacts significantly relate TV Rating. The regression results confirm H_3 significantly ($=-0.135$, $p<0.000$, $\Delta R^2=0.005$, $p=0.000$ - M3).

To provide an illustration of a significant interaction effect, the procedures of Aiken and West (1991) and Cohen et al. (2003) were used and depicted in Figure 1. The figure indicates that TV ratings reached the highest when the dyadic TV stations have greater similarity of resources (movies), but they need to target different segments - low salience (=3.525). However, when the dyadic TV stations target a similar market (high salience), TV ratings reached the lowest point (=1.671). Under low similarity of resources, low salience produces slightly higher TV ratings (=2.029) compared to higher ones (=1.855). In general, low salience is preferable than high salience, and it will reach the highest TV rating when it has greater similarity.

Figure 2 - The Interaction Effect of Similarity and Salience



CONCLUSION

This study intentionally examines the effects of capability to contest of each TV station on their market performance in Indonesia. The results indicate that greater similarity, in the case of resources or TV programs (Chen, 1996), increases the overall market performance in the industry, due to the increase of viewers' familiarity with a particular TV program (Alvarez et al., 2005). On the contrary, when each firm target a similar market and use a similar TV program - salience, then the market performance decreases (Chen, 1996; Chen et al., 2007). This study further exhibits that there is an interaction between similarity and salience, in which high similarity and high salience reaches the greater market performance, while low similarity and high salience leads to lower performance. This further validate the idea of Chen and Miller (1994) about the interaction of salience and similarity in the industry.

There are several managerial implications can be suggested. First, the manager should be aware that airing similar TV programs could speed up the market to learn and increase the familiarity of viewers with a particular program (Alvarez et al., 2005), and thus increase the overall market performance. Second, managers should cautiously execute the first

recommendation. When there is high similarity and salience among TV stations, thus it might increase the market performance in general. However, when the salience is high while similarity is low, it could reduce the industry's market performance in general (Chen and Miller, 1994). We expect that this study will contribute to the competitive dynamics literature in a number of ways. First, this study uses the TV industry as a context to study competitive dynamics which is mainly dominated by the airline industry (e.g., Chen, 1996; Chen et al., 2007). Second, this study empirically tests the interaction effect of similarity and salience as the dimensions of capability to contests as suggested the original idea of Chen (1996). Third, this study extend the prediction of AMC which is primarily influence the competitive tension (Chen et al., 2007; Tsai et al., 2011) to market performance, as the ultimate variable to be competed in the industry. The results of this study must be considered in the light of some limitations. First, this study mainly uses data from 2013 which might limit the explanation of the competitive dynamics inside the broadcasting industry in Indonesia. Second, this study employs the formula of Chen et al. (2007) to represent the capability to contest overall TV programs. However, the data itself can be broken down into a more detailed analysis, such as movies, TV programmes such as ministeries, cartoons, etc.; which need further analysis to provide precise results and recommendations.

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