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Firm resources and entry-related advantages: An empirical study in China

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A B S T R A C T

The majority of research on order of market entry has focused on market pioneer advantages or the specialized assets that industry incumbents would need to possess. However, relatively little attention has been paid to whether and how certain firm resources or capabilities may provide latecomers with entry-related advantages. This issue is of particular interest when multinational organizations decide to enter emerging markets, such as China, where the transitional economy provides both opportunities and challenges. This study attempts to bridge this gap by discussing the entry-related advantages in terms of pioneer advantages, early follower advantages, and late entrant advantages, and by investigating how each of the entry-related advantages has unique impacts on market performance. In particular, this study examines the relations between innovation management, firm resources, entry-related advantages, and market performance simultaneously with cross-sectional data from 191 firms in China. Our findings reveal that technical resources and skills (R&S), marketing R&S, and market intelligence are associated with different advantages for market pioneers, early followers, and late entrants. Technical R&S is also found to have significant impacts on order of market entry as pioneers. Furthermore, the findings show that remarkable differences exist among the three entrant types (i.e., market pioneers, early followers, and late entrants) in their strategic approaches to attain market performance. We offer implications to foreign firms operating in China or intending to enter China's markets.

1. Introduction

During the process of economic transition over the past three decades, China has been smoothly transitioning from a planned economy to a market economy. Because of its vast population, enormous development potential, and increasing disposable income, China has become one of the world's most attractive markets for multinational companies (Wang & Lin, 2010). Consequently, there is growing interest in understanding how multinational corporations enter the Chinese market efficiently and effectively. Because the culture and institutional structure in China are different from those in other countries, especially the more developed western countries, managers from different countries tend to employ different mental models and thus perceive the relative advantages of pioneering differently (Calantone, Di Benedetto, & Song, 2010; Di Benedetto & Song, 2008). In the extant literature it is still unclear if the connections between the resource-based view of the firm and entry-related advantages (Lieberman & Montgomery, 1998) function the same way in China as in other countries.

It has long been the focal point of discussions in market entry research whether to treat order of entry as an exogenous or endogenous variable. Studies that treat order of entry as an exogenous variable aim at testing the impact of order of entry on firm's market performance, and what factors (either firms' internal or external factors) moderate the relationship between order of entry and a firm's market performance (Li, Lam, Karakowsky, & Qian, 2003; Robinson & Fornell, 1985; Rodríguez-Pinto, Rodríguez-Escudero, & Gutiérrez-Cillán, 2008). These studies attempt to answer the question of under what conditions early entry can enhance the firms' accumulation of superior resources and capabilities. While some studies focusing on the potential for pioneering firms to acquire superior resources and capabilities find that early entry into an emerging market may facilitate such accumulation (Lieberman & Montgomery, 1998), other studies regarding innovation management have found that some prerequisites exist for this conclusion to hold (Shanker, Carpenter, & Krishnamurthi, 1998).

On the other hand, studies that treat order of entry as an endogenous variable mainly identify the characteristics of different types of entrants (Boulding & Christen, 2003; Lieberman & Montgomery, 1988, 1998; Robinson, Fornell, & Sullivan, 1992). They attempt to answer the question of what initial resources and capabilities a firm must possess to enter a market successfully and sustain the firm's success afterwards. It is suggested that the optimal timing of entry often depends upon the strengths and weaknesses of the firm's existing resource base. It also offers a broad theoretical framework

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confirming that innovation management and key resources contribute more to a firm's market performance than order of entry (Poletti, Engelland, & Ling, 2011).

While the two research streams above have different emphases, they are not mutually exclusive and can be integrated in further empirical examinations. Because technological and market uncertainties may obscure the best opportunities for market entry, and because the initial resources and capabilities of a firm affecting its optimal timing of entry are hard to determine, both research perspectives acknowledge the importance of close observation of opportunities under different environmental conditions and the cultivation of sustainable competitive advantages. Researchers suggest that more empirical studies are needed to understand different entrant types and their relevant strategies under different environmental conditions (Lieberman & Montgomery, 1988).

The majority of research on order of market entry has focused on market pioneer advantages or the specialized assets that industry incumbents would need to possess (Mitchell, 1989). For example, Lieberman and Montgomery (1988) proposed that an environment change creates an opportunity for market pioneer advantages, but these advantages can only be realized if the market pioneer possesses the capability to capitalize on this opportunity. However, relatively little research attention has been paid to whether and how certain firm resources and innovation management may provide latecomers with entry-related advantages. The comparative advantage hypothesis (Robinson et al., 1992), for example, implies that entry timing might be related to the particular resources possessed by individual firms, because the resource requirements for success may change radically with market evolution (Abell, 1978). Evidence shows that although early entry brings advantages to market pioneers, later entry (i.e., early followers and late entrants) can also bring some advantages that market pioneers do not have (Cho, Kim, & Rhee, 1998). Considering the fact that entrants at any stage entering the market may bring with them particular advantages, the term "entry-related advantages" is used in this paper to refer to marketing pioneer advantages, early follower advantages and late entrant advantages. For example, while existing research has revealed various findings regarding the order-of-entry effects for multinational companies entering the Chinese market (e.g., Johnson & Tellis, 2008; Li et al., 2003; Magnusson, Westjohn, & Boggs, 2009), it is yet to be known what conditions enterprises need to meet to become market pioneers and what factors can affect latecomers' advantages. Moreover, it would be interesting to find out how firm resources and innovation management shape corporations into different entrant types and contribute to their market performance.

To contribute to the extant literature and fill the gap described above, this study examines the relationships among innovation management, entry resources, entry-related advantages, and market performance simultaneously with cross-sectional data from 191 firms in China. In particular, this study attempts to address the following important research questions: First, considering the order of entry as an endogenous variable, we examine the influence of entry resources on the choice of entry timing strategy. Second, since the goal of innovation management is to identify marketing opportunities and to invest required resources so as to turn marketing opportunities into capital (Tidd, Bessant, & Pavitt, 2001), we examine if innovation management affects entry resources for different entrant types. Third, considering entry-related advantages of different entrant types as the natural result of order of entry (Kerin, Varadarajan, & Peterson, 1992; Urban, Carter, Gaskin, & Mucha, 1986), we investigate the relations between firm resources and entry-related advantages. Fourth, we further investigate if entry-related advantages contribute to market performance for different entrant types.

The article is organized as follows. First, we provide a literature review on relevant topics. Second, we develop our conceptualization and hypotheses derived from a theoretical background. Third, we provide empirical results that test our hypotheses. Finally, we discuss the research contributions in terms of their relevance to business environmental conditions in China. Implications and guidelines for future studies are also provided.

2. Literature review

2.1. Entry-related advantages

This research adopts the widely accepted classification framework proposed by Robinson and Fornell (1985) which categorizes market entrants into three types: the market pioneer (one of the first firms to offer such products or services in a market), the early follower (a firm that follows soon after the pioneers enter a market, usually when the market is still growing and dynamic), and the late entrant (a firm that enters a market when the market is stable and close to maturity).

A review of the extant literature reveals that most studies on market pioneer advantages conclude that market pioneering can bring companies superior market share advantage. An inverse order-of-entry effect suggests that market pioneers are often rewarded with more market share advantages than either early followers or late entrants (Kalyanaram, Robinson, & Urban, 1995; Robinson & Fornell, 1985; Urban et al., 1986; Usero & Fernández, 2009). Order of entry into a market is also believed to be causally and negatively related to market performance, reflecting a firm's market share, sales volume and sales growth (Spanos & Lioukas, 2001). That is, on average, market pioneers have higher market performance than early followers, who in turn have higher market performance than late entrants in the same industry (e.g., Urban et al., 1986). Market entry barriers can also be turned into market pioneer advantages, which can buy the market pioneers some time by delaying early followers' process of catching up (Kerin et al., 1992). Such market pioneer advantages mainly include an entrenched position in consumers' minds, higher thresholds for later entrants in terms of quality, advertising and distribution support, long-term market share advantages, cost and experience barriers for later entrants, image/reputation benefits, and benefit from governmental concessions and incentives (Haines, Candran, & Parkhe, 1989; Pan & Chi, 1999).

Although being the market pioneer is a necessary condition for exploiting entry-related advantages, the factors involved in achieving and sustaining market pioneer advantages are considerably more complex than a simple order of entry effect (Kerin et al., 1992). Market pioneers may have potential disadvantages as well, which, in a given market, can be turned by latecomers into early follower advantages and/or late entrant advantages (Cho et al., 1998). Changes in customer tastes and technologies can offer a valuable window of opportunities for early followers and late entrants to design the right entry strategies and take advantage of free-rider effects on market pioneers' investments in areas such as customer education and research and development costs. Lock-in of assets/resources and organizational inertia will result in incumbent inertia. Effective resource management gives early followers and late entrants an opportunity to "compete away" pioneering advantages (Finney, Lueg, & Campbell, 2008). By entering late, a firm can view market response to initial movements of market pioneers and make judgments with more concrete information and less uncertainty. Specifically, early follower advantages include discovering the existence of a market without huge investment in market research, and learning from the pioneer's experience and lessons resulting in the ability to introduce superior manufacturing techniques and better designed products, as well as the potential to offer an improved marketing mix (Haines et al., 1989). In the same vein, late entrant advantages can be gained through reduced innovation costs (via imitation) and free-riding on the market pioneer's costs, capitalizing on pioneers' and/or early followers' mistakes, taking advantage of scope economies, and better adapting to consumer preferences (Kerin et al., 1992).